WING SHAN INTERNATIONAL LIMITED
榮 山 國 際 有 限 公 司

(Stock Code: 0570)

Annual Report
2007

Contents

Corporate Information

BOARD OF DIRECTORS

Non-executive Directors

DU Richeng *(Chairman) (appointed on 1 January 2008)*
HE Haochang *(re-designated as Non-executive Director and resigned as Managing Director on 1 April 2007; resigned as Non-executive Director and Chairman on 1 January 2008)*

Executive Directors

LAM Siu Hung *(re-designated as Managing Director on 1 April 2007)*
SITU Min *(Chief Financial Officer & Qualified Accountant)*
LI Songquan *(Director & Deputy Managing Director appointed on 1 January 2007 & 1 April 2007 respectively)*
LI Feng *(resigned on 1 January 2007)*

Independent Non-executive Directors

CHAN Ting Chuen, David
CHEUNG Kin Piu, Valiant
NG Pui Cheung, Joseph

COMPANY SECRETARY

HUEN Po Wah

AUDIT COMMITTEE

CHAN Ting Chuen, David *(Chairman)*
CHEUNG Kin Piu, Valiant
NG Pui Cheung, Joseph

REMUNERATION COMMITTEE

CHAN Ting Chuen, David *(Chairman)*
DU Richeng *(Appointed on 1 January 2008)*
HE Haochang *(Resigned on 1 January 2008)*
CHEUNG Kin Piu, Valiant
NG Pui Cheung, Joseph

REGISTERED OFFICE

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China Insurance Group Building
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STOCK CODE

The shares of Wing Shan International Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITORS

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong & Shanghai Banking Corporation Limited

WEBSITE

http://www.wingshan.com.hk

I am pleased to present the report of Wing Shan International Limited (the 'Company") together with the Company's subsidiaries called the "Group" to the shareholders of the Company.

BUSINESS REVIEW AND THE WAY AHEAD

Throughout the year, the principal activity of the Company is investment holding and the principal activities of its subsidiaries are the manufacture and sale of Chinese medicine and pharmaceutical products in the People's Republic of China ("PRC").

As stated in the Interim Report 2007, the PRC has been experiencing a continuous and steady economic growth over the years with rising personal income and spending power of the general public together with improvement in living standard. In addition, the PRC is facing an aging problem. Therefore, people in the PRC are becoming more health-conscious and more willing to spend in medical and health area. According to the statistics released by the National Development and Reform Commission of the PRC, in terms of the gross output value, industrial sales value and total export value of the PRC medical and pharmaceutical industry have been grown more than 20% in 2007.

Besides, the Chinese Government will issue a series of new policies including the promotion of the "全民醫保" ("Medical for All"). It will give a lot of opportunities to thrive the medical and pharmaceutical industry in the PRC. In the circumstances, I am optimistic about the prospects of the Chinese medicine and pharmaceutical business in the PRC.

The Group will concentrate on its present core business which has positive contribution to the Group. This includes mainly the development of the sales and marketing networks and the cost control in manufacturing and operation against the significant price increasing in the PRC recently. On the other hand, the Company will also seek any business which can provide contributable profits and positive effect to the financial position of the Group.

BUSINESS RESULTS

The generation and sale of electricity at Foshan City in the PRC had caused substantial losses to the Group for four consecutive years up to the financial year ended 31 December 2006. After the disposal of the generation and sale of business of electricity on 28 December, 2006 and the acquisition of the business of manufacture and sale of Chinese medicine and pharmaceutical products on 9 October 2006, the Group recorded an audited profit of HK$25.04 million for the year ended 31 December, 2007 in which HK$8.40 million was attributable to the equity shareholders of the Company.

REDUCTION OF SHARE PREMIUM ACCOUNT

The company had put forward the proposal to reduce the share premium account by elimination the accumulated losses of the Company amounting to HK$837,876,237 as at 31 December 2006. The reduction of share premium account was approved by the shareholders of the Company and a court order was granted. It gives the opportunity to the Company to consider making distribution to its shareholders.

APPRECIATION

During the year, our management teams and all our staff have endeavoured their greatest effort to brave the challenges brought about by the difficult business environment. I have witnessed the strongest ever unity amongst all of us at the highest team spirit to face all the problems in the future. At the same time, I have also experienced the warmest support and the most generous assistance from our suppliers, joint-venture partners, customers, relevant authorities of the People's Government of Foshan Municipality and in particular the great patience of our shareholders. On behalf of the board of directors, I must hereby express my sincere appreciation to all of you and take this opportunity to thank Mr. HE Haochang (resigned as chairman and director on 1 January 2008) for his valuable contribution in changing the business of the Group and then turning into black and recorded a profit for the year ended 31 December 2007. Delivering change is never easy.

DU Richeng
Chairman

Hong Kong, 23 April 2008

PERFORMANCE REVIEW

The principal activity of the Company is investment holding. The contribution of the generation and sale of electricity at the Foshan City in the People's Republic of China ("PRC") has been ceased to be accounted for, whereas the results from the business of manufacture and sale of Chinese medicine and pharmaceutical in the PRC has been consolidated in the Group's financial results, since 28 December 2006 and 9 October 2006 respectively. So Consolidated Profit and Loss Account for the year ended 31 December 2006 incorporated a significant loss on discontinued operation in respect of the results of the generation and sale of electricity and the results from 9 October 2006 to 31 December 2006 of the continuing operation in respect of the business of Chinese medicine and pharmaceutical which are materially affected by seasonal and cyclical factors. Therefore, it has no direct correlation in comparison of the operation and results from that business of Chinese medicine and pharmaceutical between the years 2006 and 2007.

Turnover of the Group for the year ended 31 December 2007 was HK$355.88 million which represented the invoiced value, net of value added tax and sales tax. The gross profit ratio was at 34.98% so the gross profit for the year was HK$124.50 million.

The profit for the year was HK$25.04 million which was after the deduction of finance costs amounting to HK$1.26 million in relation to the short term loans for the working capital to a subsidiary.

The profit for the year comprising the profit attributable to the equity shareholders of the Company amounting to HK$8.40 million and the profit attributable to minority interests amounting to HK$16.64 million. The profit attributable to the equity shareholders of the Company has incorporated the entire administrative and operating expenses solely belonging to the overheads in Hong Kong amounting to HK$8.92 million.

MARKET REVIEW

In the review of the year, the Group's development reached its budget pace and efficiency. The Group focused on technology innovation, improving the quality of products, accelerating the development of strong and stable customer relations affiliated with sales and marketing network, increasing product's market share as well as expanding sales team and improving its quality and skills. The improvements enhanced the ability of the Group to resist risks and threats, it also increased the overall strength and supported the smooth development of its operation.

The PRC government has strengthened its policy in recent years to restrict the price increasing in Chinese medicine and pharmaceutical products, such ongoing medicine price reform unavoidably affected the Group's performance. In recent times, certain flagship products have been authorised to price increment, it alleviated the impact of price reform.

In the last year, the prices in all aspects in the PRC have been tremendously increased, especially in the last few months, which including raw materials, energy, labour and rental. The Group will be reducing various costs in different aspects of operation in procurement of raw materials, production, sales, transportation and storage. In particular, various sourcing channels were used for the procurement of raw materials, packing materials and supplementary materials, so that costs were reduced effectively while the management was carried out under a regulated regime.

MARKET REVIEW (Continued)

The prices of some Chinese traditional medical materials were rising due to the shortage in supply. Having accessed market updates through comparing the prices and quality of medical material, the Group capitalized on an opportunity to make procurements for keeping a reasonable amount of stocks. Especially, some scarce or precious materials were purchased and stored in bulk to ensure that day-to-day production demand is met; therefore, overall production costs can be kept stable.

The flagship products are the series products of鼻炎康(Biyankang), 維C銀翹片 (VC Yingqiao tablet) and馮了性風濕鐵打藥酒 (Fengliaoxing Fengshi Diedajiu). The Group continues to reinforce the build-up of product portfolios by differentiation, carry out changes and innovations on an ongoing basis to the form, packaging and specifications of products specially to cope with the demand from different consumers, and develop and promote products with promising market potential.

In research and development, the Group co-operates with its research and development partners, 中山大學醫學院 (Sun Yat-Sen University Medical Faculty) and 北京協和醫院 (Peking Union Medical College Hospital) for enlarging the capability of its research and development teams, constantly developing high-tech, high quality and high-value added new patented products for the market. During the year, the Group got patent certificates issued by State Patent Office in inventing prescription and processing methods of 腰腎膏(Yaoshen Gao) and 鼻炎康片 (Biyankang Pian) which provide the exclusive production rights for seventeen years.

PROSPECTS

In the future, factors such as adjustments in the national policy regarding the prices of pharmaceutical products, inflation in cost of raw materials, rise in operating expenses and the keen competition in the PRC pharmaceutical market will pose certain impact on the steady development of the Group. However, a coin even has two sides. The new reform on medical system and the gradual implementation of medical insurance system of workers and citizens will rapidly expand the scale of sale of the PRC pharmaceutical and boost the development. Furthermore, as a result of the expanding population, aging population, more health-consciousness, industrial modernization and the influence of globalized disease will also push and prompt the growth of the pharmaceutical industry.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group funded its operation by internal cash inflow generated from its operating activities.

As at the balance sheet date, the Group's current assets amounted to HK$229.39 million (2006: HK$210.06 million) including cash and cash equivalents of HK$82.36 million (2006: HK$108.53 million). The current liabilities amounted to HK$100.82 million (2006: HK$123.00 million) with bank loans and overdrafts of HK$Nil (2006: HK$20.20 million). Net working capital surplus amounting to HK$128.57 million (2006: HK$87.07 million). The Group's current ratio expectedly increased from the previous 1.71 to 2.28.

FINANCIAL REVIEW (Continued)

Bank Loans or Borrowings

As at 31 December 2007, the Group had no bank loans or borrowings in whatsoever nature (2006: HK$20.20 million).

Charge on Group Assets

As at 31 December 2007, there was no charge on the Group's assets for whatsoever purposes (2006: Nil).

Capital Structure and Gearing Ratio

As at 31 December 2007, all the fundings in the Group's capital structure are attributable to the shareholders of the Company. As at 31 December 2006, the Group's capital structure comprised the shareholders' equity and the short-term bank loans and overdrafts amounting to HK$20.20 million.

As at 31 December 2006, the gearing ratio, being the aggregate amount of the short-term bank loans as a percentage of equity attributable to equity shareholders of the Company was 6.89%.

Net Assets

The Group's net assets value excluding minority interests increased from previous of HK$293.26 million to HK$324.17 million.

Contingent Liabilities

As at balance sheet date, the Group had no contingent liabilities (2006: Nil).

Exchange Rate Risk

During the year, individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited so that no financial instrument has been used for the purpose of hedging exchange rate risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group employed a total of 951 (2006: 824) staff including the directors of the Company. Remuneration packages principally comprised salary, discretionary performance bonus based on individual merits and share option scheme. The Group's total employee remuneration for the year was approximately HK$50.83 million (2006: HK$34.16 million).

NON-EXECUTIVE DIRECTORS

Mr. DU Richeng, aged 59, was appointed to the board of directors (the "Board") as a non-executive director in January 2008 and is also a member of the Company's remuneration committee. Mr. DU is the Chairman of the Company. Mr. DU has over 30 years' experience in international trading, industrial management, property development and public utilities. Mr. DU was an executive director of the Company from 14 April 1998 to 8 February 2001. Mr. DU came to work in Hong Kong in March 1990 and was appointed as the vice chairman and managing director of Foshan Development Company Limited ("FDC"), a controlling shareholder of the Company in November 1996. Subsequently, he was appointed as the chairman of 佛山電建集團公司 (Foshan Electric Power Construction Group Corporation) on his return to the mainland China in January 2001 and was re-designated as the chairman of 佛山市公用事業控股有限公司 (Foshan Public Utilities Holding Co., Ltd.) in July 2006 and has held such office until now.

HE Haochang, aged 57, was appointed to the Board as an executive director in February 2001. Mr. HE has been the Chairman and Managing Director since 19 July 2001. With effect from 1 April 2007 and later on, Mr. HE resigned as the Managing Director of the Company and the director of a number of subsidiaries of the Company respectively. Also from 1 April 2007, Mr. HE has been re-designated as a non-executive director but remaining as the Chairman of the Company. As the Chairman of the Board, Mr. HE is responsible for the running of the Board and the ensuring of the directors' performance and strategic planning. Educated in the People's Republic of China ("PRC"), Mr. HE is experienced in the management of joint-venture enterprises in the PRC. At present, Mr. HE is also the Chairman of FDC, a controlling shareholder of the Company.

Mr. HE resigned as the Company's non-executive director and Chairman on 1 January 2008. The Group would like to thank Mr. HE for his valuable contributions to the Company and the Group.

EXECUTIVE DIRECTORS

LAM Siu Hung, aged 49, was appointed to the Board in July 2005. Mr. LAM was the Deputy Managing Director of the Company and then was promoted as the Managing Director with effect from 1 April 2007. Mr. LAM is responsible for the formulation of operational plans and the supervision of the day-to-day administration of the Company's corporate headquarters in Hong Kong as well as the management of the Group's business. Mr. LAM is presently a practicing Certified Public Accountant and is a fellow member of the Association of Chartered Certified Accountants. On top of that, he is a member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Securities Institute. Mr. LAM has built up over 20 years' experience in accounting, auditing, taxation and corporate finance. Additionally, he is, at present, an independent non-executive director of Long Far Pharmaceutical Holdings Limited, a main board listed company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

SITU Min, aged 38, was appointed to the Board in September 2001. Mr. SITU is the Chief Financial Officer and the Qualified Accountant of the Company. Mr. SITU is responsible for the Group's financial planning and management, overseeing all its financial matters. He is a fellow member of the Association of Chartered Certified Accountants and is also a member of Chinese Institute of Certified Public Accountants. Mr. SITU has experience in auditing and financial management. He had worked as the Manager of Finance Department of FDC, a controlling shareholder of the Company.

EXECUTIVE DIRECTORS (Continued)

LI Songquan, aged 31, was appointed to the Board in January 2007. Mr. LI has been appointed as the Deputy Managing Director with effect from 1 April 2007. Mr. LI is responsible for the overall strategic planning and management of the Group's business. Mr. LI graduated from South China University of Technology. He has experience in the regime of state-owned enterprises and joint-venture enterprises in the PRC, especially in the reform, reorganization, acquisition, merger and listing of state-owned enterprises.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Ting Chuen, David, aged 60, was appointed to the Board in December 1992 and is the Chairman of both the Company's audit committee and remuneration committee. He graduated with a bachelor degree in Civil Engineering from The University of Hong Kong. He is an entrepreneur, especially in the property development and manufacturing industry. Mr. CHAN is currently an executive director of Symphony Holdings Limited, a main board listed company on the Stock Exchange.

NG Pui Cheung, Joseph, aged 61, was appointed to the Board in June 2002 and is a member of the Company's audit committee and remuneration committee. Being an ex-banker, he is experienced in the PRC financial business. Mr. NG had worked in a number of reputable banking institutions which including The Bank of East Asia, Limited, Banque Nationale de Paris, Bank of the Orient, Societe Generale and Credit Lyonnais Securities (Asia) Limited. Mr. NG was the General Manager in relation to the Hong Kong operation of Smart Rich Energy Finance (Holdings) Limited (formerly known as Credit Card DNA Security System (Holdings) Limited), a main board listed company on the Stock Exchange.

CHEUNG Kin Piu, Valiant, aged 62, was appointed to the Board in March 2004 and is a member of the Company's audit committee and remuneration committee. He was a partner at KPMG, a leading international accounting firm in Hong Kong, until his retirement in March 2001. Mr. CHEUNG has extensive experience in assurance and corporate finance work, particularly in trading and manufacturing corporations in Hong Kong and the PRC and has also assisted a number of companies in obtaining stock exchange listings in Hong Kong, the PRC, Singapore and the United States. In addition, Mr. CHEUNG has provided financial advisory and due diligence services to foreign investors on investments in the PRC. Mr. Cheung is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. At the moment, he is an independent non-executive director of Dream International Limited, Pacific Century Premium Developments Limited and Dah Chong Hong Holdings Limited, all the companies listed on the main board of the Stock Exchange. Further, Mr. Cheung is also an independent non-executive director of The Bank of East Asia (China) Limited which is incorporated in the PRC and is a wholly owned subsidiary of The Bank of East Asia, Limited whose shares are listed on the Stock Exchange.

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of Wing Shan International Limited (the "Company") considers that good corporate governance is central to safeguarding the interests of the shareholders and enhancing the performance of the Company and its subsidiaries which collectively called the "Group". The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of the Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2007, except for the deviation from the Code provision A.2.1 that the roles of Chairman and Chief Executive Officer (defined as Managing Director by the Company) should be separated and should not be performed by the same individual.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

None of the directors is related to each other and the Board of the Company comprises the following directors during the year and up to the date of this report:

Non-executive Directors:

DU Richeng *Chairman (appointed as Non-executive Director and Chairman on 1 January 2008)*
HE Haochang *Chairman (re-designated as Non-executive Director and resigned as Managing Director on 1 April 2007; resigned as Non-executive Director and Chairman on 1 January 2008)*

Executive Directors:

LAM Siu Hung *(re-designated as Managing Director on 1 April 2007)*
SITU Min (*Chief Financial Officer & Qualified Accountant)*
LI Songquan *(appointed as Director on 1 January 2007 and as Deputy Managing Director on 1 April 2007)*
LI Feng *(resigned on 1 January 2007)*

Independent Non-executive Directors:

CHAN Ting Chuen, David
CHEUNG Kin Piu, Valiant
NG Pui Cheung, Joseph

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Composition and Role (Continued)

As at the date of this report, the Board comprises a total of seven directors, including one non-executive director, three executive directors and three independent non-executive directors. In addition, one of the independent non-executive directors possesses appropriate professional accounting qualifications and financial management expertise.

The principal focus of the Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies; approval of annual budgets and business plans; evaluating the performance of the Group; and oversight of management. The Board also monitors the financial performance and the internal controls of the Group's business operations.

Every newly appointed director of the Company shall receive a set of information package from the secretary of the Company on the first occasion of his appointment. This information package is a comprehensive and formal induction on the responsibilities and on-going obligations to be observed by a director. In addition, it includes materials on the operations and business of the Company. The senior management and the secretary of the Company will subsequently conduct such briefing as is necessary, to ensure that the directors have a proper understanding of the operations and business of the Company and that they are aware of their responsibilities under the laws and applicable regulations.

With a wide range of expertise and a balance of skills, the independent non-executive directors bring independent judgment on issue of strategic direction, development, performance and risk management through their contribution at the Board meetings and the relevant committee works. The independent non-executive directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework including internal controls. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The directors are regularly updated on governance and regulatory matters. There is an established procedure for directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties, if necessary. The Company has also arranged appropriate directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Composition and Role (Continued)

The Board meets regularly at quarterly basis together with ad hoc meeting is necessary to review the overall strategy and to monitor the operation as well as the financial performance of the Group. The Chairman is primarily responsible for drawing up and approving the agenda of each Board meeting in consultation with the directors. Notice of at least 14 days have been given to all directors for all regular meetings and the directors can raise and incorporate matters for discussion in the agenda. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to the directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to the directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are kept by the secretary of the Company and the directors have access to Board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it. The directors shall have separate and independent access to the Company's senior management.

During the year, five full board meetings, of which four were regular quarterly meetings, were held and the individual attendance of each director is set out below:

Directors	Attendance of Board Meeting	Attendance Rate
Non-executive Director:		
HE Haochang *Chairman*	5/5	100%
(resigned as Non-executive Director and Chairman on 1 January 2008)		
Executive Directors:		
LAM Siu Hung	5/5	100%
SITU Min	5/5	100%
LI Songquan	5/5	100%
Independent Non-executive Directors:		
CHAN Ting Chuen, David	4/5	80%
CHEUNG Kin Piu, Valiant	5/5	100%
NG Pui Cheung, Joseph	5/5	100%

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Chairman and Managing Director

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the Code as set in Appendix 14 of the Listing Rule throughout the year ended 31 December 2007 except for the deviation from the roles of Chairman and Managing Director of the Company should be separate and should not be performed by the same individual.

Mr. HE Haochang has been the Chairman and Managing Director of the Company since 19 July 2001. This deviates from the Code provision A.2.1 that the roles of Chairman and Managing Directors should be separated and should not be performed by the same individual. With effect from 1 April 2007, Mr. HE resigned as the Managing Director of the Company and has been re-designated as a non-executive director but remaining as the Chairman of the Company. On even date, Mr. LAM Siu Hung was appointed as the Managing Director of the Company. Throughout the period in which Mr. He was the Chairman and Managing Director of the Company, the principal of segregation of duty had been carried out among members of the Board for the purposes of balance of power and authority in place, and all directors were freely to brief on issues arising at the Board meeting. As the roles of Chairman and Managing Director are separated, it is more appropriate in compliance with the Code. The Board will keep such attitude and character in the future.

Appointment and Re-election of Directors

There should be a formal, considered and transparent procedure for the appointment of new directors to the Board. There should be plans in place for orderly succession for appointments to the Board. The directors should be subject to re-election at regular intervals. The Company must explain the reasons for the resignation or removal of any director.

On 29 December 2006, Mr. LI Songquan was nominated and appointed by the Board as an executive director of the Company to replace the resigned director, Mr. LI Feng, with effect from 1 January 2007. Further, on 1 April 2007, Mr. LI Songquan was appointed as the Deputy Managing Director of the Company and his remuneration was determined by the remuneration committee.

On 13 December 2007, Mr. DU Richeng was nominated and appointed by the Board as a non-executive director and Chairman of the Company to replace the resigned chairman, Mr. HE Haochang, with effect from 1 January 2008.

All the independent non-executive directors are appointed for a specific term and subject to re-election. Mr. CHAN Ting Chuen, David has a service contract with the Company for a term of one year together with Mr. CHEUNG Kin Piu, Valiant and Mr. NG Pui Cheung, Joseph have service contracts for a term of two years with the Company.

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Appointment and Re-election of Directors (Continued)

The Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Article 92 of the Articles of Association of the Company, a director appointed by the Board to fill a casual or as an addition to the Board. Any director so appointed shall hold office only until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following Annual General Meeting (in case of an addition to the existing Board), and shall then be eligible for re-election. Furthermore, according to the Article 101 of the Articles of Association of the Company, at each Annual General Meeting one-third of the directors for the time being, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office. The directors to retire in every year shall be those who have been longest in office.

Audit Committee

The audit committee has established for many years and it comprises three independent non-executive directors. The Board considers that each audit committee member has board commercial experience and there is a suitable mix of expertise in the business, accounting and financial management on the audit committee. The composition and members of the audit committee complies with the requirements under the Listing Rule 3.21. The written terms of reference which describe the authority and duty of the audit committee was subsequently amended in January 2005 to conform to the Code, a copy of which is posted on the Company's website.

The audit committee meets regularly to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process. The audit committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. During the year, the audit committee had held one independent private meeting with the auditors where without the presence of non-executive director, executive directors and senior management so the audit committee members can feel freely to communicate with the auditors.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the accounts for the half year ended 30 June 2007 and year ended 31 December 2007.

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Audit Committee (Continued)

During the year, two audit committee meetings were held together with the auditors and senior management and the individual attendance of each member is set out below:

Independent Non-executive Directors	Attendance of Audit Committee Meeting	Attendance Rate
CHAN Ting Chuen, David *(Chairman)*	2/2	100%
CHEUNG Kin Piu, Valiant	2/2	100%
NG Pui Cheung, Joseph	2/2	100%

Remuneration Committee

The remuneration committee was established in 2005 and the majority of the members are the three independent non-executive directors together with the Chairman of the Company. None of the member or any associate with them should be involved in deciding his own remuneration. The remuneration committee advises the Board on the Group's overall policy and structure for the remuneration of the directors and senior management. The written terms of reference which describe the authority and duty of the remuneration committee is posted on the Company's website.

In determining the emolument payable to the directors, the remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The objectives of the Company's remuneration policy are:

1. to provide an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

2. to provide base remuneration to the employees that is competitive to the industry and general market condition;

3. to award employees in recognition of good individual and corporate performance; and

4. to encourage future employee contributions to achieve overall corporate goals.

The remuneration package is structured to attract and retain the best talent available, and will contain a combination or modification of some or all of the four main components:

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

Remuneration Committee (Continued)

1. Base salary

   Base salary and wage rate ranges are established for each position by evaluating the responsibilities and the duties required to be performed. The actual salary or wage rate for person filling the position is determined based on the experience and ability of the individual selected for the position.

2. Incentive bonus on performance

   Incentive bonus on performance is established for certain range of management in according to their goal achievement.

3. Share option scheme

   Share option scheme for purchase shares in the Company are granted to the employees from time to time at the discretion of the Board for retaining human resources and motivating future performance of the employees. Details refer to the report of directors.

4. Other benefits

   In addition to the above, the Group offers customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions.

During the year, one remuneration committee meeting was held and the individual attendance of each member is set out below:

Directors	**Attendance of Remuneration Committee Meeting**	**Attendance Rate**
Independent Non-executive Directors:		
CHAN Ting Chuen, David *(Chairman)*	1/1	100%
CHEUNG Kin Piu, Valiant	1/1	100%
NG Pui Cheung, Joseph	1/1	100%
Non-executive Directors:		
HE Haochang *(resigned as Non-executive Director and Chairman on 1 January 2008)*	1/1	100%

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors and the directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year. Furthermore, senior management who are likely to be possession of unpublished price sensitive information, have been required to comply with the provisions of the Model Code.

FINANCIAL REPORTING

The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2007, the directors have:

1. approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

2. selected and applied consistently appropriate accounting policies;

3. made judgments and estimates that are prudent and reasonable; and

4. prepared the accounts on the going concern basis.

The statement about the directors' reporting responsibilities is set out in the Independent Auditor's Report on page 31 of this annual report.

AUDITORS' REMUNERATION

The external auditors of the Company KPMG provided audit services to the Company and the Group for the year ended 31 December 2007 and also reviewed the 2007 unaudited interim financial report of the Group. The fees charged for the aforesaid services amounted to HK$1,641,000.

Furthermore, KPMG received a fee amounted to HK$90,000 in respect of engagement to perform agreed-upon procedures regarding financial information in relation to the reduction of share premium account by elimination the accumulated losses as at 31 December 2006.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual evaluation of the system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework.

The internal control process is conducted by the Board with the supporting of management and other designated personnel. It is designed to provide reasonable assurance regarding the achievement of objectives.

An annual evaluation was performed by the Company to perform documentations and review on the internal control system of the Group. This evaluation covered all material controls including financial, operational and compliance controls and risk management functions. This evaluation had also covered the second round evaluation in respect of Foshan Dezhong Pharmaceutical Co., Ltd. and Foshan Feng Liao Xing Pharmaceutical Co., Ltd., both of which were acquired on 9 October 2006. The results of this evaluation had been carefully and fully discussed in a full Board meeting for further modification the system of internal controls.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board would endeavour its best effort to enhance and improve the internal controls in all aspects with the Group.

COMMUNICATION WITH SHAREHOLDERS

The Board has endeavoured to maintain an on-going dialogue with the shareholders and in particular, use Annual General Meetings or other general meetings to communicate with the shareholders and encourage their participation by providing forum for them to raise comments and exchange views with the Board. The Company's website offers communication channel between the Company and the shareholders, and also frequently updated key information of the Group are available on the Company's website.

VOTING BY POLL

The Company regularly informs the shareholders of the procedure for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the Company.

The directors submit herewith their annual report together with the audited accounts of Wing Shan International Limited (the "Company") and the Company and its subsidiaries which collectively called the "Group" for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the company's subsidiaries are the production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China ("PRC").

RESULTS AND DIVEDENDS

The Group's profit for the year ended 31 December 2007 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 33 to 108.

No interim dividend was paid during the year. The directors have resolved to recommend a final dividend of HK0.50 cent per ordinary share (2006: Nil) for the year ended 31 December 2007 to the shareholders on the register of members on 26 May 2008. This recommendation has not been incorporated in the accounts.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2007 are set out in note 17 to the accounts.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 13 to the accounts.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 26 to the accounts.

It should point out that the Company put forward the proposal to reduce the share premium account by elimination the accumulated losses of the Company amounting to HK$837,876,237 as at 31 December 2006 in accordance with the announcement and the circular of the Company dated 27 July 2007 and 17 August 2007 respectively. Such reduction in share premium account was approved by the shareholders at the Extraordinary General Meeting of the Company on 11 September 2007. On 11 October 2007, the Company was granted an order from the High Court of Hong Kong confirming the reduction. The related Court order was duly registered by the Registrar of Companies on 12 October 2007 and the reduction become effective thereafter. It gave the opportunity to the Company to make dividend to the shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 109 to 110.

MAJOR CUSTOMERS AND SUPPLIERS

The turnover attributable to the five largest customers of the Group accounted for less than 21% of the Group's total turnover during the year.

The purchases from the Group's five largest suppliers accounted for less than 20% of the Group's total purchases during the year.

At no time during the year, none of the directors, their associates, or any shareholders of the Company (which to the best knowledge of the Directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this annual report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

DIRECTORS

The board of directors (the "Board") comprises the following directors during the financial year and up to the date of this report:

Non-executive Directors

DU Richeng *Chairman (appointed as Non-executive Director and Chairman on 1 January 2008)*

HE Haochang *Chairman (re-designated as Non-executive Director and resigned as Managing Director on 1 April 2007; resigned as Non-executive Director and Chairman on 1 January 2008)*

Executive Directors

LAM Siu Hung *(re-designated as Managing Director on 1 April 2007)*
SITU Min *(Chief Financial Officer & Qualified Accountant)*
LI Songquan *(appointed as Director on 1 January 2007 and as Deputy Managing Director on 1 April 2007)*
LI Feng *(resigned on 1 January 2007)*

DIRECTORS (Continued)

Independent Non-executive Directors

CHAN Ting Chuen, David
CHEUNG Kin Piu, Valiant
NG Pui Cheung, Joseph

The Company has received from each independent non-executive director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers all the independent non-executive directors to be independent.

In accordance with Articles 92 and 101 of the Company's Articles of Association, Mr. DU Richeng, Mr. LAM Siu Hung, Mr. CHAN Ting Chuen, David and Mr. NG Pui Cheung, Joseph will retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographical details of the resigned and existing directors of the Company, including essentially, the particulars required under paragraph 12 of Appendix 16 the Listing Rules (if and as applicable and appropriate), are set out on pages 8 to 9.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. DU Richeng has a service contract with the Company for a term of one year commencing on 1 January 2008.

Mr. He Haochang had a service contract with the Company for a term of two years commencing on 19 July 2001 which will continue thereafter until terminated by either party to the agreement at six months' notice. After his resignation as the Managing Director and re-designation as a non-executive director on 1 April 2007 but remaining the Chairman of the Company, the service contract has been replaced by another one for a term of two years with the Company. On 1 January 2008, Mr. He Haochang resigned as non-executive director and Chairman.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. LAM Siu Hung has a service contract with the Company for a term of two years commencing on 4 July 2005 which has been approved by the Board as well as the remuneration committee and will continue thereafter until terminated by either party to the agreement at six months' notice.

Mr. SITU Min has a service contract with the Company for a term of two years commencing on 1 March 2003 which will continue thereafter until terminated by either party to the agreement at six months' notice.

Mr LI Songquan has a service contract with the Company for a term of two years commencing on 1 April 2007 which has been approved by the Board as well as the remuneration committee and will continue thereafter until terminated by either party to the agreement at six months' notice.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

All the independent non-executive directors are appointed for a specific term subject to re-election. Mr. CHAN Ting Chuen, David has a service contract with the Company for a term of one year and Mr. CHEUNG Kin Piu, Valiant and Mr. NG Pui Cheung, Joseph have service contracts for a term of two years with the Company.

DIRECTORS' FEES

The fee for each of the directors was fixed at HK$100,000 per annum by the shareholders at the Annual General Meeting of the Company held in May 2002 and continues to be paid at such rate until otherwise determined by the shareholders in general meeting.

MATERIAL CONNECTED TRANSACTIONS

There is no material connected transaction with related party in whatsoever nature during the year ended 31 December 2007 or at any time during that year. Details of the Group's material connected transactions for the year ended 31 December 2006 are disclosed in note 11 to the accounts.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2007, the interests or short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) ("SFO") as recorded in the register which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:-

Long positions in shares and underlying shares of the Company as at 31 December 2007:

Name of Directors	Ordinary Shares Directly Owned	Underlying Shares Pursuant to Share Options	Total Interests	Approximate Percentage of Total Interests to Issued Share Capital (%)
HE Haochang	–	4,200,000 *(Note 1)*	4,200,000	0.51
SITU Min	–	3,800,000 *(Note 1)*	3,800,000	0.46
NG Pui Cheung, Joseph	300,000 *(Note 2)*	–	300,000	0.04

Notes:-

1. These represent interests of options granted to the directors under the Share Option Scheme to acquire for shares of the Company. All the share options lapsed on 30 January 2008, further details of which are set out hereinafter.

2. 100,000 ordinary shares were sold on 29 February 2008.

Other than as disclosed above, none of the directors and chief executives of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the year.

DISCLOSURE OF INTERESTS (Continued)

Substantial Shareholders' Interests

As at 31 December 2007, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under section 336 of SFO were as follows:

	Number of Ordinary Shares				
	Personal Interest	Corporate Interest	Family Interest	Other Interest	Percentage of Issued Capital (%)
Hensil Investments Group Limited	–	315,000,000 *(Note 1)*	–	–	37.91
Foshan Development Company Limited	–	315,000,000 *(Note 1)*	–	–	37.91
YIP Siu Chun	290,196,037 *(Note 2)*	–	–	–	34.92
Oakwood Enterprise Limited	–	–	–	290,196,037 *(Note 2)*	34.92
KWAN Tik Hoi	–	–	290,196,037 *(Note 2)*	–	34.92

Notes:

1. The 315,000,000 shares are held by Hensil Investments Group Limited, which is wholly-owned by Foshan Development Company Limited. By virtue of its interest in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in such 315,000,000 shares held by Hensil Investments Group Limited.

2. The 290,196,037 shares were held by Madam YIP Siu Chun as beneficial owner. Oakwood Enterprise Limited had given notification in respect of its interest in 290,196,037 shares held by Madam YIP Siu Chun. By virtue of his relationship as the spouse of Madam YIP Siu Chun, Mr KWAN Tik Hoi was deemed to be interested in the 290,196,037 shares held by Madam YIP Siu Chun.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2007.

DISCLOSURE OF INTERESTS (Continued)

Substantial Shareholders' Interests (Continued)

On 4 February 2008, Hensil Investments Group Limited entered into an agreement with Madam Yip Siu Chun to acquire the entire 290,196,037 ordinary shares held by her for a consideration of HK$66,745,088.51, representing HK$0.23 per ordinary share. Under the acquisition of the shares, a mandatory unconditional cash offer has been made to public shareholders. Finally, Hensil Investments Group Limited had received valid acceptances in respect of 94,849 ordinary shares. Upon completion of the mandatory unconditional cash offer, the substantial shareholders as at the date of this report were as follows:

	Corporate Interest on Ordinary Shares	Percentage of Issued Capital (%)
Hensil Investments Group Limited	605,290,886 *(Note)*	72.84
Foshan Development Company Limited	605,290,886 *(Note)*	72.84

Note:

The 605,290,886 shares are held by Hensil Investments Group Limited, which is wholly-owned by Foshan Development Company Limited. By virtue of its interest in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in such 605,290,886 shares held by Hensil Investments Group Limited.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") for any eligible employee or director of any member of the Group. The Scheme was approved by the Company's shareholders at an Extraordinary General Meeting of the Company held on 22 May 2002 and amended by the Company's shareholders at an Annual General Meeting on 29 May 2006, details of which have been disclosed in the Company's circular to shareholders dated 29 April 2002 and 28 April 2006 respectively. Disclosures in respect of the share options granted, exercised, lapsed and cancelled during the year are listed below under the section headed "Options to Subscribe for Ordinary Shares Granted under the Company's Share Option Scheme" in this report.

SHARE OPTION SCHEME (Continued)

The following is a summary of the Scheme:

(i) Who May Participate

Any employee or director of any member of the Group ("Participant(s)") as invited by the Board at the Board's absolute discretion may participate. In determining the basis of eligibility of each Participant, the Board will mainly take into account of the experience of the Participant on the Group's business, the length of service of the Participant with the Group and the efforts and contributions the Participant has made or is likely to be able to give or make towards the success of the Group in the future.

(ii) Purpose

The purpose of the Scheme is for the Company to attract, retain and motivate talented Participants to strive for future developments and expansion of the Group, to encourage the Participants to perform their best in achieving the goals of the Group and above all to allow the Participants to enjoy the results of the Company attained through their efforts and contributions.

(iii) Duration and Administration

Subject to that the Scheme is terminated by the Company, the Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect and options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue. The remaining life of the scheme as at the date of this annual report is 4 year and 1 month.

(iv) Grant of Option

The Board shall be entitled at any time within 10 years after the date of adoption to make an offer to any Participant. An option shall be deemed to have been granted and accepted and to have taken effect when a signed copy of an offer letter made by the Company to a Participant together with a remittance in favour of the Company of HK$1.00 by way of consideration for the granting of the same is received by the Company. Subject to the provisions of the Scheme and the Listing Rules, the Board may at its discretion, when making the offer, impose any conditions, restrictions or limitations in relation thereto as it may think fit.

SHARE OPTION SCHEME (Continued)

(v) Subscription Price

The subscription price shall be a price determined by the Board and notified to a Participant and shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the grant of an option (the "Grant Date"); (b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Grant Date; and (c) the nominal value of a share.

(vi) Maximum Number of Shares Available for Subscription

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the Scheme, unless the Company obtains an approval from its shareholders to refresh the 10% limit. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed 30% of the shares in issue from time to time. As at 31 December 2007, the total number of shares available for issue was 80,945,824, which including 8,000,000 share options granted but not lapsed under the Scheme.

(vii) Maximum Entitlement of Shares of Each Participant

The total number of shares issued and to be issued upon exercise of the options granted to each Participant (including exercised, cancelled, lapsed and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Should any further grant of options in excess of the 1% limit of the shares in issue, such further grant must be separately approved by the shareholders in general meeting with such Participant and his associates abstaining from voting.

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE COMPANY'S SHARE OPTION SCHEME

The directors and chief executives had personal interests in the share options to subscribe for the shares of the Company. During the year, the movements in such options are as below:

Name of Directors/ Chief Executives	No. of Options Outstanding as at 1 January 2007	Date of Grant	Period during which Options Exercisable	Exercise Price per Share HK$	Market Value per Share at Date of Grant HK$	Options Exercised during the Year	Options Lapsed during the Year	Market Value per Share at Date of Exercise of Options HK$	No. of Options Outstanding as at 31 December 2007
HE Haochang *(N)*	4,200,000	30/7/2002	30/1/2003-29/1/2008	0.35	0.33	–	–	–	4,200,000
SITU Min *(E)*	3,800,000	30/7/2002	30/1/2003-29/1/2008	0.35	0.33	–	–	–	3,800,000
LI Feng *(E)*	1,500,000	22/5/2003	22/11/2003-21/11/2008	0.415	0.395	–	(1,500,000)	–	–
NG Pui Cheung,	828,000	25/7/2002	25/1/2003-24/1/2008	0.35	0.345	(528,000)	–	0.68	–
Joseph *(I)*						(300,000)		0.62	
Total	10,328,000					(828,000)	(1,500,000)		8,000,000

(N) *Non-executive director*
(E) *Executive director*
(I) *Independent non-executive director*

Notes:

1. No share option has been granted during the year.

2. During the year, the 828,000 share options were exercised at exercise price of HK$0.35 per share by Mr. NG Pui Cheung, Joseph in accordance with the Scheme and the relevant offer letter of the Company.

3. The 1,500,000 share options granted to Mr. LI Feng lapsed during the year.

4. The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.

5. Market value per share at date of grant is the closing price at date preceding the date of options granted.

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE COMPANY'S SHARE OPTION SCHEME (Continued)

For the period from 1 January 2008 to the date of this report, the following directors and chief executives had personal interests in the share options to subscribe for the shares of the Company. Movements during the period in such options are as below:

Name of Directors/ Chief Executives	No. of Options Outstanding as at 1 January 2008	Date of Grant	Period during which Options Exercisable	Exercise Price per Share HK$	Options Granted during the Period	Options Lapsed during the Period	Market Value per Share at Date of Grant of Options HK$	No. of Options Outstanding as at 23 April 2008
HE Haochang *(N)*	4,200,000	30/7/2002	30/1/2003-29/1/2008	0.35	–	(4,200,000)	0.33	–
SITU Min *(E)*	3,800,000	30/7/2002	30/1/2003-29/1/2008	0.35	–	(3,800,000)	0.33	–
CHAN Ting Chuen, David *(I)*	–	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	–
NG Pui Cheung, Joseph *(I)*	–	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	–
CHEUNG Kin Piu, Valiant *(I)*	–	02/1/2008	02/1/2008-01/1/2013	0.434	828,000	(828,000)	0.41	–
Total	8,000,000				2,484,000	(10,484,000)		–

(N) *Non-executive director*
(E) *Executive director*
(I) *Independent non-executive director*

Notes:

1. On 2 January 2008, the 2,484,000 share options had been granted to Mr. CHAN Ting Chuen, David, Mr. Ng Pui Cheung, Joseph and Mr. Cheung Kin Piu, Valiant equally at exercise price of HK$0.434.

2. Market value per share at date of grant is the closing price at date preceding the date of options granted.

3. On 30 January 2008, the 8,000,000 share options granted to Mr. HE Haochang and Mr. SITU Min lapsed.

4. On 19 March 2008, the 2,484,000 share options granted to Mr. Chan Ting Chun, David, Cheung Kin Piu, Valiant, and Mr. NG Pui Cheung, Joseph equally lapsed in accordance with the Scheme in relation to the mandatory unconditional cash offer aforesaid.

5. The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.

Apart from the foregoing, at no time during the year was the Company or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in above section headed "Option to Subscribe for Ordinary Shares Granted under the Company's Share Option Scheme" of this report, at no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 5(b) and 27 to the accounts.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

DU Richeng
Chairman

Hong Kong, 23 April 2008

Independent auditor's report to the shareholders of
Wing Shan International Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of Wing Shan International Limited (the "Company") set out on pages 33 to 108, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 April 2008

Consolidated Profit and Loss Account

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Continuing operation			
Turnover	3	**355,880**	109,627
Cost of sales		**(231,382)**	(67,157)
Gross profit		**124,498**	42,470
Other revenue	4	**2,109**	1,781
Other net income	4	**1,173**	318
Selling and distribution costs		**(55,984)**	(23,213)
Administrative expenses		**(37,632)**	(20,879)
Profit from operation		**34,164**	477
Finance costs	5(a)	**(1,258)**	(6,358)
Profit/(loss) before taxation	5	**32,906**	(5,881)
Income tax	6(a)	**(7,871)**	(510)
Profit/(loss) for the year from continuing operation		**25,035**	(6,391)
Discontinued operation			
Loss for the year from discontinued operation	7	**–**	(425,303)
Profit/(loss) for the year		**25,035**	(431,694)
Attributable to:	9 & 26(a)		
– Equity shareholders of the Company		**8,396**	(337,401)
– Minority interests		**16,639**	(94,293)
Profit/(loss) for the year		**25,035**	(431,694)
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	32	**4,155**	–
Basic and diluted earnings/(loss) per share	10		
From continuing and discontinued operations:		**1.01 cents**	(40.64 cents)
From continuing operation:		**1.01 cents**	(1.18 cents)
From discontinued operation:		**–**	(39.46 cents)

The notes on pages 40 to 108 form part of these accounts.

Consolidated Balance Sheet

At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Non-current assets					
Fixed assets	13				
– Property, plant and equipment			**141,817**		146,858
– Investment property			**7,963**		7,663
– Interests in leasehold land held for own use under operating leases			**25,349**		24,127
			175,129		178,648
Construction in progress	14		**144**		–
Intangible assets	15		**90,701**		98,224
Goodwill	16		**132,738**		123,437
Other financial assets	18		**3,953**		1,103
			402,665		401,412
Current assets					
Inventories and consumables	19	**72,895**		57,989	
Trade and other receivables	20	**72,633**		43,544	
Restricted deposits	22	**1,498**		–	
Cash and cash equivalents	22	**82,364**		108,531	
		229,390		210,064	
Current liabilities					
Trade and other payables	23	**94,958**		70,361	
Bank loans and overdrafts	25	**–**		20,203	
Dividend payable		**–**		28,762	
Tax payable	21(a)	**5,864**		3,671	
		100,822		122,997	
Net current assets			**128,568**		87,067
Total assets less current liabilities			**531,233**		488,479

		2007		2006	
	Note	$'000	$'000	$'000	$'000
Non-current liabilities					
Deferred tax liabilities	21(b)	**33,805**		37,709	
			33,805		37,709
NET ASSETS			**497,428**		450,770
CAPITAL AND RESERVES	26(a)				
Share capital			**83,097**		83,015
Reserves			**241,068**		210,243
Total equity attributable to equity shareholders of the Company			**324,165**		293,258
Minority interests			**173,263**		157,512
TOTAL EQUITY			**497,428**		450,770

Approved and authorized for issue by the board of directors on 23 April 2008.

LI Songquan
Director

SITU Min
Director

The notes on pages 40 to 108 form part of these accounts.

Balance Sheet

At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 $'000	2007 $'000	2006 $'000	2006 $'000
Non-current assets					
Interest in subsidiaries	17		**282,400**		282,400
Current assets					
Other receivables	20	**570**		217	
Cash and cash equivalents	22	**13,193**		7,332	
		13,763		7,549	
Current liabilities					
Trade and other payables	23	**1,958**		2,478	
Bank overdrafts	25	**–**		309	
		1,958		2,787	
Net current assets			**11,805**		4,762
NET ASSETS			**294,205**		287,162
CAPITAL AND RESERVES	26(b)				
Share capital			**83,097**		83,015
Reserves			**211,108**		204,147
TOTAL EQUITY			**294,205**		287,162

Approved and authorized for issue by the board of directors on 23 April 2008.

LI Songquan
Director

SITU Min
Director

The notes on pages 40 to 108 form part of these accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	2007		2006	
	$'000	$'000	$'000	$'000
Total equity at 1 January		**450,770**		809,659
Acquisition of subsidiaries		**–**		152,902
Disposal of subsidiaries		**–**		(98,189)
Net income recognized directly in equity:				
Exchange difference on translation of accounts of PRC subsidiaries	**33,294**		18,689	
Changes in fair value of available-for-sale securities, net of deferred tax	**2,209**		(597)	
Net income for the year recognized directly in equity		**35,503**		18,092
Net profit/(loss) for the year		**25,035**		(431,694)
Total recognized income and expense for the year		**511,308**		450,770
Attributable to:				
Equity shareholders of the Company	**323,876**		293,258	
Minority interests	**187,432**		157,512	
	511,308		450,770	
Dividends declared by subsidiaries paid to minority interests		**(14,169)**		–
Movements in equity arising from capital transactions:				
Shares issued under share option scheme		**289**		–
Total equity at 31 December		**497,428**		450,770

The notes on pages 40 to 108 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007		2006	
		$'000	**$'000**	$'000	$'000
Operating activities					
Profit/(loss) before taxation		**32,906**		(480,435)	
Adjustments for:					
Depreciation and amortization		**33,001**		89,992	
Impairment losses		**815**		280,283	
Gain on disposal of subsidiaries		**–**		(63,355)	
Finance costs	5(a)	**1,258**		21,834	
Interest income	4	**(970)**		(3,380)	
Loss on disposal of fixed assets		**27**		–	
Foreign exchange loss/(gain)		**867**		(726)	
Operating profit/(loss) before changes in working capital		**67,904**		(155,787)	
Increase in inventories and consumables		**(14,906)**		(83,092)	
(Increase)/decrease in trade and other receivables		**(29,904)**		40,541	
Decrease in time deposits		**18,303**		–	
Increase in restricted deposits		**(1,498)**		–	
Increase in trade and other payables		**24,597**		245,720	
Decrease in provision for staff welfare		**–**		(247)	
Cash generated from operations		**64,496**		47,135	
PRC enterprise income tax paid		**(12,881)**		(1,985)	
Net cash generated from operating activities			**51,615**		45,150
Investing activities					
Acquisition of subsidiaries, net of cash acquired	30(a)	**–**		69,725	
Disposal of subsidiary, net of cash disposed of	30(b)	**–**		(108,997)	
Payment for the purchase of fixed assets		**(2,424)**		(1,600)	
Payment for construction in progress		**(169)**		(21)	
Interest received		**970**		3,380	
Increase in prepayment for planned maintenance		**–**		6,485	
Net cash used in investing activities			**(1,623)**		(31,028)

	Note	2007		2006	
		$'000	**$'000**	$'000	$'000
Financing activities					
Proceeds from new bank loans		**17,655**		27,076	
Repayment of bank loans		**(37,549)**		(32,517)	
Proceeds from shares issued under share option scheme		**289**		–	
Interest paid		**(1,258)**		(16,234)	
Dividends paid to former shareholders of subsidiaries		**–**		(29,452)	
Dividends paid to minority shareholders		**(42,930)**		(5,416)	
Net cash used in financing activities			**(63,793)**		(56,543)
Net decrease in cash and cash equivalents			**(13,801)**		(42,421)
Cash and cash equivalents at 1 January			**89,919**		132,340
Effect of foreign exchange rate changes			**6,246**		–
Cash and cash equivalents at 31 December	22		**82,364**		89,919

MAJOR NON-CASH TRANSACTIONS

On 28 December 2006, the consideration for the disposal of Hensil Worldwide Inc. ("HWI", together with its subsidiaries are referred to as the "HWI Group") of $288 million was satisfied by way of offsetting with the outstanding principal amount of the convertible notes of $282.4 million issued by the Company to Foshan Development Company Limited ("FDC") on 9 October 2006 together with accrued interest and early redemption cost of $5.6 million arising thereon (please refer to note 30).

The notes on pages 40 to 108 form part of these accounts.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated accounts for the year ended 31 December 2007 comprise Wing Shan International Limited (the "Company") and its subsidiaries (together referred to as the "Group").

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is the historical cost basis except that financial assets and liabilities are stated at their fair values as explained in accounting policies set out in notes 1(e), 1(l) and 1(n).

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the accounts (Continued)

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Investments in equity securities

The Group's investments are classified as available-for-sale securities and are initially stated at cost, which is their transaction price plus attributable transaction costs unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. These investments are subsequently remeasured at each balance sheet date with any resultant gain or loss being recognized directly in equity. Dividend income from these investments is recognized in profit or loss in accordance with the policy set out in note 1(s)(iv). When these investments are derecognized or impaired (see note 1(j)), the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss.

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)). Rental income from investment properties is accounted for as described in note 1(s)(iii). Depreciation is provided over the properties' estimated useful lives on a straight-line basis. Estimated useful lives of investment properties are 25 to 50 years.

Major costs incurred in restoring investment properties to their nominal working condition are charged to profit or loss. Improvements are capitalized and depreciated over their expected useful lives.

Gains or losses arising from the retirement or disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

(g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed property, plant and equipment includes the cost of materials, direct labour, borrowing cost and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives.

– Plant, machinery and equipment:	
– for manufacturing of pharmaceutical products	10-15 years
– for generation of electricity	27 years
– Motor vehicles	5-10 years
– Others	2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses (see note 1(j)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalized development costs are stated at cost less accumulated amortization and impairment losses. Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(j)). Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

– product protection rights	Over the product protection period
– trademarks	50 years

Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities (other than investments in subsidiaries) and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

– For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(i) Impairment of investments in equity securities and trade and other receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

– For available-for-sale securities, the cumulative loss that has been recognized directly in equity is removed from equity and is recognized in profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(ii) Impairment of other long-lived assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– investment property;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– construction in progress;

– intangible assets;

– investments in subsidiaries; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(ii) Impairment of other long-lived assets (Continued)

– Recognition of impairment losses

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1 (j)(i) and (ii)).

Impairment losses recognized in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. Impairment losses recognized in an interim period in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of available-for-sale equity securities is recognized directly in equity. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories and consumables

Inventories are carried at the lower of cost and net realizable value while consumables, comprising of fuel oil, components and replacement parts held for consumption by the Group, are stated at cost less any provisions for damages or obsolescence.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts (see note 1(j)), unless the effect of discounting would be immaterial. In such case, they are stated at cost less allowance for impairment of doubtful debts (see note 1(j)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Employees benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employees benefits (Continued)

(ii) Share based payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

No benefit cost or obligation is recognized at the date of grant or exercise as the Group has taken advantage of the transitional provisions set out in HKFRS 2 "Share-based payment", under which the recognition and measurement policies have not been applied to the following grants of options:

– all options granted to employees on or before 7 November 2002; and

– all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rate enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible difference, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Sale of electricity

Revenue arising from sale of electricity is recognized based on electricity supplied as recorded by meters read during the year. Additional fuel cost surcharges and subsidies for electricity supplied, representing an adjustment for tariff of electricity supplied, are recorded as revenue in the period that agreement on the surcharge amount is reached. Subsequent agreement in respect of the current period is accrued in the current period if the agreement occurs prior to finalization of the accounts.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iv) Dividends

Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

(v) Interest income

Interest income is recognized as it accrues using the effective interest method.

(vi) Government grants

Government grants are recognized in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in profit or loss as revenue on a systematic basis over the useful life of the asset.

(t) Translation of foreign currencies

For the purpose of presenting the consolidated financial statements, the Group adopted Hong Kong dollars ("HKD") as its presentation currency. The functional currencies of the Company and the subsidiaries incorporated in Hong Kong are HKD and the functional currencies of the subsidiaries established in the PRC are Renminbi ("RMB").

Foreign currency transactions during the year are translated into the functional currency of the entity at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the foreign exchange rates ruling at the balance sheet date. Exchange gains and loss are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency of the entity using the foreign exchange rates ruling at the dates the fair value was determined.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Translation of foreign currencies (Continued)

The results of foreign operations are translated into the presentation currency of the Group at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into the presentation currency of the Group at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated into the presentation currency of the Group at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange difference recognized in equity which relate to that foreign operation is included in the calculation of profit or loss on disposal.

(u) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

(v) Borrowing costs

Borrowing costs are expensed in profit and loss in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the profit and loss account, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(x) Related parties

For the purposes of these accounts, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Related parties (Continued)

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these accounts.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, cash and cash equivalents, interest-bearing borrowings, tax balances, corporate and financing expenses.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these accounts for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of Financial Statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the accounts include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial Instruments: Disclosure and presentation*. These disclosures are provided throughout these accounts, in particular in note 31.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's objectives, policies and processes for managing capital. These new disclosures are set out in note 26(i).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognized in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

3 TURNOVER

The principal activities of the Group are manufacture and sale of pharmaceutical products in the People's Republic of China ("PRC") upon the acquisition of Hensil Holdings Company Limited ("HHC") on 9 October 2006 as set out in note 30(a). Turnover represents the sales value of goods sold less returns, discounts, value added tax and sales tax.

Turnover of continuing operation may be analyzed as follows:

	2007	2006
	$'000	$'000
Sales of pharmaceutical products		
– Pills and tablets	**237,275**	68,776
– Medicine wine	**41,475**	16,917
– Paste, granules and others	**77,130**	23,934
	355,880	109,627

Prior to the disposal of HWI on 28 December 2006 (see note 7), the Group also engaged in the generation and sale of electricity. Turnover included in discontinued operation for the period ended 28 December 2006 represented the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the PRC amounting to $686.5 million and additional tariff for peak hour electricity subscription amounting to $35.3 million.

4 OTHER REVENUE AND NET INCOME

	2007	2006
	$'000	$'000
Other revenue		
Government grants	**1,054**	29,416
Interest income	**970**	3,380
Dividend income from listed securities	**37**	–
Others	**48**	–
	2,109	32,796
Representing:		
Continuing operation	**2,109**	1,781
Discontinued operation	**–**	31,015
	2,109	32,796
Other net income		
Insurance compensation	**–**	1,551
Rental income	**1,163**	3,824
Others	**10**	56
	1,173	5,431
Representing:		
Continuing operation	**1,173**	318
Discontinued operation	**–**	5,113
	1,173	5,431

5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	2007	2006
	$'000	$'000
(a) Finance costs (note (i)):		
Interest on bank advances and other borrowings wholly repayable within five years	**1,258**	15,741
Interest expense and early redemption costs on convertible notes (note (ii))	**–**	6,093
	1,258	21,834
Representing:		
Continuing operation	**1,258**	6,358
Discontinued operation	**–**	15,476
	1,258	21,834

Notes:

(i) No interest was capitalized as construction in progress during the years presented.

(ii) Convertible notes of $282,400,000 were issued to FDC, a shareholder of the Company, upon the acquisition of HHC on 9 October 2006 as set out in note 30(a). The convertible notes were settled on 28 December 2006 by way of offsetting with the consideration for the disposal of HWI as set out in note 30(b).

	2007	2006
(b) Staff costs:		
Salaries, wages and other benefits	**48,816**	32,939
Contribution to defined contribution retirement plans	**2,015**	1,219
	50,831	34,158
Representing:		
Continuing operation	**50,831**	14,467
Discontinued operation	**–**	19,691
	50,831	34,158

5 PROFIT/(LOSS) BEFORE TAXATION (Continued)

Profit/(loss) before taxation is arrived at after charging (Continued):

	2007	2006
	$'000	$'000
(c) Other items:		
Continuing operation:		
Auditors' remuneration	**1,641**	4,789
Depreciation and amortization		
– investment property	**269**	66
– lease prepayments	**568**	138
– other assets	**17,837**	4,800
– intangible assets	**14,327**	3,450
Impairment losses		
– trade receivables	**815**	164
Operating lease charges on buildings	**475**	311
Research and development costs	**1,257**	911
Discontinued operation:		
Cost of consumables	**–**	876,575
Depreciation and amortization		
– assets held for use under operating leases	**–**	4,224
– lease prepayment	**–**	1,615
– other assets	**–**	75,699
Impairment losses		
– fixed assets	**–**	280,119

6 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(a) Taxation in the consolidated profit and loss account represents:

	2007 $'000	2006 $'000
Current tax		
PRC enterprise income tax for the year	**15,092**	3,051
Deferred tax		
Origination and reversal of temporary differences	**(7,221)**	(51,792)
	7,871	(48,741)
Representing:		
Continuing operation – tax charge	**7,871**	510
Discontinued operation – tax credit	**–**	(49,251)
	7,871	(48,741)

No provision has been made for the Hong Kong Profits Tax as the Group sustained losses in Hong Kong for taxation purposes during the year.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC enterprise income tax of the Group's subsidiaries, Foshan Dezhong Pharmaceutical Co., Ltd. ("DZH") and Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("FLX") is 27%. The subsidiaries are granted certain tax relief, under which they are exempted from PRC enterprise income tax for the first two profit making years and entitled to an income tax reduction to 12% for the next three years up to 31 December 2003 and 31 December 2004 respectively.

DZH and FLX are also recognized as new high technology enterprises pursuant to documents "粵外經貿加證字337號" and "粵外經貿加證字458號" respectively issued by The Department of Foreign Trade and Economic Cooperation of Guangdong Province and received approvals from the Foshan Tax Bureau for a three-year extension of the income tax reduction to 12% up to 31 December 2006 and 31 December 2007 respectively. Hence, DZH and FLX are subject to PRC enterprise income tax at 27% and 12% for the year respectively.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to DZH and FLX will change from 27% to 25% with effect from 1 January 2008. The change in the carrying amount of the current tax payable and deferred tax liabilities as a result of the change in tax rate has been reflected in these accounts.

Further under the new tax law, the gross amount of dividends received by the Company from its PRC subsidiaries in respect of their profits generated after 1 January 2008 is subject to withholding tax at a rate of 5%. Under the grandfathering treatments, the undistributed profits of the PRC subsidiaries as at 31 December 2007 are exempted from withholding tax.

6 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT (Continued)

(b) Reconciliation between tax expense/(credit) and accounting profit/(loss) at applicable tax rates:

	2007 $'000	2006 $'000
Profit/(loss) before taxation		
– continuing operation	**32,906**	(5,881)
– discontinued operation	**–**	(474,554)
	32,906	(480,435)
Notional tax on profit/(loss) before tax, calculated at rates applicable to profit/(loss) in the countries concerned	**9,732**	(86,047)
Tax effect on non-deductible expenses	**1,897**	2,661
Tax effect on non-taxable revenue	**(54)**	(11,926)
Tax effect on unused tax losses not recognized (note)	**–**	48,146
Effect on opening current and deferred tax balances resulting from the change in tax rate during the year	**(1,207)**	–
Income tax concessions	**(2,497)**	(1,460)
Others	**–**	(115)
Actual tax expense/(credit)	**7,871**	(48,741)

Note: The amount arose from the tax losses of the Company's former subsidiary, 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co., Ltd.) ("Shakou JV"), for the year ended 31 December 2006. No deferred tax assets were recognized as it was not probable that future taxable profits would be available against which the assets could be utilized.

7 DISCONTINUED OPERATION

On 28 December 2006, the Company sold the entire equity interest in HWI for an aggregate consideration of $288 million to FDC.

The loss from the discontinued operation is analyzed as follows:

	From 1 January 2006 to 28 December 2006 $'000
Loss of HWI Group	488,658
Gain on disposal (note 30(b))	(63,355)
	425,303

7 DISCONTINUED OPERATION (Continued)

The results of the HWI Group for the period from 1 January 2006 to 28 December 2006 are as follows:

	From 1 January 2006 to 28 December 2006 $'000
Turnover	721,751
Cost of sales	(981,849)
Gross loss	(260,098)
Other revenue	31,015
Other net income	5,113
Administrative expenses	(18,344)
Impairment losses	(280,119)
Loss from operations	(522,433)
Finance costs	(15,476)
Loss before taxation	(537,909)
Income tax	49,251
Loss for the period	(488,658)
Attributable to:	
– Equity shareholders of HWI	(390,933)
– Minority interests	(97,725)
Loss for the period	(488,658)

During the period, HWI Group contributed the Group's net operating cash flows by $7,301,000, contributed $7,849,000 in respect of investing activities and paid $22,915,000 in respect of financing activities.

No tax charge arose on the gain on disposal of HWI.

The carrying amounts of the assets and liabilities of the HWI Group at the date of disposal have been disclosed in note 30(b).

8 DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees $'000	Salaries and allowances $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2007 Total $'000
Executive directors					
He Haochang	100	105	61	5	271
Lam Siu Hung	100	624	165	31	920
Situ Min	100	420	88	21	629
Li Songquan	100	315	79	16	510
Independent non-executive directors					
Chan Ting Chuen, David	100	–	–	–	100
Ng Pui Cheung, Joseph	100	–	–	–	100
Cheung Kin Piu, Valiant	100	–	–	–	100
	700	1,464	393	73	2,630

	Directors' fees $'000	Salaries and allowances $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	2006 Total $'000
Executive directors					
He Haochang	100	365	88	18	571
Lam Siu Hung	100	461	108	23	692
Situ Min	100	365	88	18	571
Li Feng	100	52	123	12	287
Independent non-executive directors					
Chan Ting Chuen, David	100	–	–	–	100
Ng Pui Cheung, Joseph	100	–	–	–	100
Cheung Kin Piu, Valiant	100	–	–	–	100
	700	1,243	407	71	2,421

8 DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

Of the five individuals with the highest emoluments, two (2006: four) are directors whose emoluments are disclosed in the above. Details of the remaining three (2006: one) individuals were as follows:

	2007	2006
	$'000	$'000
Salaries and other emoluments	**2,340**	242
Retirement scheme contributions	**–**	–
	2,340	242

The emoluments of the three (2006: one) individuals with highest emoluments are within the following band:

	2007	2006
	Number of individuals	Number of individuals
$		
Nil – 1,000,000	**3**	1

9 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity shareholders of the Company includes a profit of $6,754,000 (2006: loss of $363,523,000) which has been dealt with in the accounts of the Company.

10 EARNINGS/(LOSS) PER SHARE

(a) Basic

From continuing and discontinued operations

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of $8,396,000 (2006: loss of $337,401,000) and the weighted average of 830,526,069 (2006: 830,146,244) ordinary shares in issue during the year.

From continuing operation

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of $8,396,000 (2006: loss of $9,823,000) and the weighted average of 830,526,069 (2006: 830,146,244) ordinary shares in issue during the year.

From discontinued operation

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $327,578,000 and the weighted average of 830,146,244 ordinary shares in issue during the year ended 31 December 2006.

(b) Diluted

The diluted earnings or loss per share for the years ended 31 December 2006 and 2007 is not shown as all potential ordinary shares are anti-dilutive.

11 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associates

Foshan City District Electric Power Construction Corporation ("Power Construction Corporation") is a substantial shareholder of Shakou JV. Power Construction Corporation is a part of a larger group of companies under Power Group Corporation, which are owned by the PRC government and Shakou JV has significant transactions and relationships with Power Group Corporation, its subsidiaries and associates. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

The following is a summary of principal related party transactions with Power Group Corporation, its subsidiaries and associates, which were carried out in the ordinary course of business. These transactions also constitute connected transactions under the Listing Rules.

Name of related company	**Nature of transaction**	Note	**2007**	2006
			$'000	$'000
Foshan City District Electricity Fuel Supply Company	Purchase of fuel (excluding value added tax)	(i)	–	864,487
Foshan City District Electric Power Construction Corporation and its associates	Interest on loans	(ii)	–	7,791
Funeng Power Supply Co. Ltd.	Lease of facilities and premises	(iii)	–	3,503

11 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associates (Continued)

Notes:

(i) During the year ended 31 December 2006, the Group purchased fuel from 佛山市區電力燃料公司 (Foshan City District Electricity Fuel Supply Company) ("Fuel Company"). The Fuel Company, being a fellow subsidiary of Power Construction Corporation, is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV. The Fuel Company supplies fuel to the Group at prices which are determined by Shakou JV and the Fuel Company from time to time, but in any event will not be higher than: (i) the then prevailing market prices for sales of fuel by the Fuel Company to independent third parties; or (ii) the then quotation of price of the fuel that Shakou JV could obtain from other independent supplier, whichever is lower.

(ii) During the year ended 31 December 2006, Shakou JV had outstanding loans due to Power Construction Corporation and its associate pursuant to certain loan agreements entered into between Shakou JV and the respective counter parties.

(iii) In July 2004, Shakou JV entered into a facilities lease agreement with Funeng Power Supply Co. Ltd. ("Funeng JV"). Funeng JV, being a fellow subsidiary of Power Construction Corporation, is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV. Pursuant to the facilities lease agreement, Shakou JV leased to Funeng JV certain assets (including office premises, factory premises, land use rights and auxiliary power generation facilities) for two years commencing from the date of the agreement and Shakou JV would receive two annual rental payments of approximately $4.55 million (RMB: 4.80 million) for the year ended 31 December 2006.

(b) Acquisition of HHC from Foshan Development (Holdings) Limited ("FDH")

On 9 October 2006, the Group acquired the entire equity interest in HHC and amount due from HHC from FDH by way of issuance of convertible notes of $282.4 million to FDC. FDH is a related party to the Group because FDH is a related party of FDC, a substantial shareholder of the Company.

(c) Disposal of HWI to FDC

On 28 December 2006, the Group disposed of the entire equity interest in HWI to FDC, a substantial shareholder of the Company, at a consideration of $288 million. The consideration for the disposal was satisfied by way of offsetting with the outstanding principal amount of the convertible notes of $282.4 million issued by the Company upon the acquisition of HHC on 9 October 2006, together with related interest and early redemption costs.

11 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in note 8, is as follows:

	2007	2006
	$'000	$'000
Short-term employee benefits	**3,837**	2,592
Post-employments benefits	**52**	71
	3,889	2,663

Total remuneration is included in "staff costs" (see note 5(b)).

(e) Transactions with other state-owned entities in the PRC

Power Group Corporation is a state-owned entity and together with Shakou JV both operate in an economic regime currently predominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities").

Apart from transactions mentioned in note 11(a), transactions with state-owned entities include but not limited to the sales and purchases of electricity.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-owned. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-owned entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the accounts, the directors are of the opinion that the following transactions require disclosures as related party transactions:

	2007	2006
	$'000	$'000
Sale of electricity to grid company	**–**	721,751
Purchase of electricity from grid company	**–**	1,740

12 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segment. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system. In view of the fact that the Group operates mainly in the PRC, no geographical segment information is presented.

The Group comprises the following main business segments:

Pharmaceutical: The manufacture and sale of pharmaceutical products in the PRC

Electricity: The generation and sale of electricity in the PRC

	Continuing operation		Discontinued operation			
	Pharmaceutical		Electricity		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Revenue	**355,880**	109,627	**–**	721,751	**355,880**	831,378
Segment results	**43,087**	8,846	**–**	(459,078)	**43,087**	(450,232)
Unallocated operating income					**319**	561
Unallocated operating expenses					**(9,242)**	(8,930)
Profit/(loss) from operations					**34,164**	(458,601)
Finance costs					**(1,258)**	(21,834)
Profit/(loss) before taxation					**32,906**	(480,435)
Income tax					**(7,871)**	48,741
Profit/(loss) for the year					**25,035**	(431,694)

12 SEGMENT REPORTING (Continued)

	Continuing operation		Discontinued operation			
	Pharmaceutical		Electricity		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Depreciation and amortization for the year	**33,001**	8,454	**–**	81,538	**33,001**	89,992
Impairment losses of						
– trade receivables	**815**	164	**–**	–	**815**	164
– fixed assets	**–**	–	**–**	280,119	**–**	280,119
Gain on disposal of subsidiaries	**–**	–	**–**	(63,355)	**–**	(63,355)
Segment assets	**543,488**	502,548	**–**	–	**543,488**	502,548
Unallocated assets					**88,567**	108,928
Total assets					**632,055**	611,476
Segment liabilities	**92,510**	103,547	**–**	–	**92,510**	103,547
Unallocated liabilities					**42,117**	57,159
Total liabilities					**134,627**	160,706
Capital expenditure incurred during the year	**2,424**	1,365	**–**	235		

13 FIXED ASSETS

	Buildings	Plant, machinery and equipment	Motor vehicles	Others	Sub-total	Investment property	Interests in leasehold land held for own use under operating leases	The Group Total	The Company Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost:									
At 1 January 2006	146,521	1,845,503	9,039	10,077	2,011,140	–	57,511	2,068,651	128
Acquisition of subsidiaries (note 30(a))	68,022	127,593	2,824	35,281	233,720	10,555	27,249	271,524	–
Additions	–	665	140	795	1,600	–	–	1,600	–
Transfer from construction in progress (note 14)	–	1,082	–	–	1,082	–	–	1,082	–
Disposal of subsidiaries (note 30(b))	(151,574)	(1,909,181)	(8,671)	(9,858)	(2,079,284)	–	(59,494)	(2,138,778)	–
Exchange adjustments	5,705	64,861	314	670	71,550	101	2,245	73,896	–
At 31 December 2006	68,674	130,523	3,646	36,965	239,808	10,656	27,511	277,975	128
At 1 January 2007	68,674	130,523	3,646	36,965	239,808	10,656	27,511	277,975	128
Additions	–	432	794	1,198	2,424	–	–	2,424	–
Transfer from construction in progress (note 14)	–	25	–	–	25	–	–	25	–
Disposals	–	(24)	(795)	(513)	(1,332)	–	–	(1,332)	–
Exchange adjustments	5,214	9,820	214	2,794	18,042	806	2,070	20,918	–
At 31 December 2007	73,888	140,776	3,859	40,444	258,967	11,462	29,581	300,010	128

13 FIXED ASSETS (Continued)

	Buildings	Plant, machinery and equipment	Motor vehicles	Others	Sub-total	Investment property	Interests in leasehold land held for own use under operating leases	The Group Total	The Company Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated depreciation and amortization and impairment loss:									
At 1 January 2006	65,655	885,769	8,334	9,556	969,314	–	25,690	995,004	128
Acquisition of subsidiaries (note 30(a))	21,941	41,994	1,964	20,033	85,932	2,899	3,216	92,047	–
Charge for the year	4,880	77,855	333	1,655	84,723	66	1,753	86,542	–
Impairment loss (note 13 (c))	21,361	250,342	–	–	271,703	–	8,416	280,119	–
Written back on disposal of subsidiaries (note 30(b))	(94,141)	(1,248,779)	(8,040)	(9,788)	(1,360,748)	–	(36,831)	(1,397,579)	–
Exchange adjustments	3,048	38,178	284	516	42,026	28	1,140	43,194	–
At 31 December 2006	22,744	45,359	2,875	21,972	92,950	2,993	3,384	99,327	128
At 1 January 2007	22,744	45,359	2,875	21,972	92,950	2,993	3,384	99,327	128
Charge for the year	2,440	11,368	435	3,594	17,837	269	568	18,674	–
Written back on disposals	–	(4)	(795)	(506)	(1,305)	–	–	(1,305)	–
Exchange adjustments	1,820	3,905	174	1,769	7,668	237	280	8,185	–
At 31 December 2007	27,004	60,628	2,689	26,829	117,150	3,499	4,232	124,881	128
Net book value:									
At 31 December 2007	46,884	80,148	1,170	13,615	141,817	7,963	25,349	175,129	–
At 31 December 2006	45,930	85,164	771	14,993	146,858	7,663	24,127	178,648	–

13 FIXED ASSETS (Continued)

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on a medium-term lease of 50 years in the PRC.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of twenty years with three months' notice for termination. Lease payments are usually increased every three to ten years to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	2007	2006
	$'000	$'000
Within 1 year	**749**	174

All investment properties of the Group were stated in the balance sheet at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2007 is $9,281,000 (2006: $7,699,000) by reference to net rental income allowing for reversionary income potential. The valuation as at 31 December 2007 and 2006 was carried out by the directors and Sallmanns (Far East) Limited, an independent firm of professional surveyors, respectively.

(c) In 2006, the continuing increase in fuel oil price and expected decrease in future subsidies caused the Group to assess the recoverable amount of fixed assets of Shakou JV. Based on this assessment, the carrying amount of fixed assets was written down by $280.1 million. The estimates of recoverable amount were based on the value in use, determined using a discount rate of 7%.

14 CONSTRUCTION IN PROGRESS

	2007	2006
	$'000	$'000
At 1 January	**–**	–
Acquisition of subsidiaries (note 30(a))	**–**	1,051
Additions	**169**	21
Transfer to fixed assets (note 13)	**(25)**	(1,082)
Exchange adjustments	**–**	10
At 31 December	**144**	–

15 INTANGIBLE ASSETS

	The Group		
	Product protection rights	Trademarks	Total
	$'000	$'000	$'000
Cost:			
At 1 January 2006	–	–	–
Acquisition of subsidiaries (note 30(a))	64,440	36,259	100,699
Exchange adjustments	635	358	993
At 31 December 2006	65,075	36,617	101,692
At 1 January 2007	65,075	36,617	101,692
Exchange adjustments	4,903	2,759	7,662
At 31 December 2007	69,978	39,376	109,354
Accumulated amortization:			
At 1 January 2006	–	–	–
Amortization for the year	(3,236)	(214)	(3,450)
Exchange adjustments	(17)	(1)	(18)
At 31 December 2006	(3,253)	(215)	(3,468)
At 1 January 2007	(3,253)	(215)	(3,468)
Amortization for the year	(13,438)	(889)	(14,327)
Exchange adjustments	(804)	(54)	(858)
At 31 December 2007	(17,495)	(1,158)	(18,653)
Net book value:			
At 31 December 2007	52,483	38,218	90,701
At 31 December 2006	61,822	36,402	98,224

The amortization charge for the year is included in "cost of sales" in the consolidated profit and loss account.

16 GOODWILL

	The Group $'000
Cost:	
At 1 January 2006	578,319
Acquisition of subsidiaries (note 30(a))	122,234
Disposal	(578,319)
Exchange adjustments	1,203
At 31 December 2006	123,437
At 1 January 2007	123,437
Exchange adjustments	9,301
At 31 December 2007	132,738
Accumulated amortization and impairment losses:	
At 1 January 2006	(578,319)
Written back on disposal	578,319
At 31 December 2006 and 2007	–
Carrying amount:	
At 31 December 2007	132,738
At 31 December 2006	123,437

16 GOODWILL (Continued)

Goodwill acquired through business combination in 2006 is allocated to the pharmaceutical business cash-generating unit ("CGU") for impairment testing.

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Company determined the value-in-use by preparing cash flow projections derived from the most recent financial forecast approved by the management covering a one-year period and extrapolated to cover a period of nine more years with an estimated increase in selling prices and costs of 3% (2006: 3%) and no growth in sales volume. The rate used to discount the forecast cash flows is 12.0% (2006: 8.5%).

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the CGU to exceed the recoverable amount.

17 INTEREST IN SUBSIDIARIES

	The Company	
	2007	2006
	$'000	$'000
Unlisted shares, at cost	**223,569**	223,569
Amounts due from subsidiaries	**58,831**	58,831
	282,400	282,400

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

(Expressed in Hong Kong dollars)

17 INTEREST IN SUBSIDIARIES (Continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group at 31 December 2007.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the group accounts.

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held Directly	Indirectly	Principal activities
Lipromate Resources Limited	Hong Kong 14 December 2006	Ordinary HK$1	100%	–	Provision of financial and management services to the Group
Hensil Industrial Inc. Limited (note (ii))	Hong Kong 6 July 2007	Ordinary HK$1	100%	–	Investment holding
Hensil Trading & Investments Limited (note (ii))	Hong Kong 6 July 2007	Ordinary HK$1	100%	–	Investment holding
Foshan Dezhong Pharmaceutical Co., Ltd. (note (i))	The PRC 1 November 1998	US$5,760,000	–	51%	Manufacturing and sale of Chinese pharmaceutical products
Foshan Feng Liao Xing Pharmaceutical Co., Ltd. (note (i))	The PRC 16 March 2000	US$6,926,100	–	51%	Manufacturing and sale of Chinese pharmaceutical products
Dezhong Pharmaceutical (Hong Kong) Company Limited	Hong Kong 13 December 1999	Ordinary HK$2	–	51%	Dormant

Notes:

(i) DZH and FLX are sino-foreign equity joint ventures established pursuant to the law of the PRC on sino-foreign equity joint ventures. DZH and FLX have joint venture periods of 50 years expiring on 30 October 2048 and 15 March 2050, respectively.

(ii) The subsidiaries are incorporated on 6 July 2007.

18 OTHER FINANCIAL ASSETS

	The Group	
	2007	2006
	$'000	$'000
Available-for-sale equity securities		
– Listed in the PRC	**3,953**	1,103
Market value of listed securities	**3,953**	1,103

19 INVENTORIES AND CONSUMABLES

(a) Inventories in the balance sheet comprise:

	The Group	
	2007	2006
	$'000	$'000
Raw materials	**29,254**	27,753
Work in progress	**16,793**	13,866
Finished goods	**19,230**	8,936
	65,277	50,555
Packaging materials	**4,990**	4,620
Low value consumables	**2,628**	2,814
	72,895	57,989

(b) The analysis of the amount of inventories and consumables recognized as an expense is as follows:

	2007	2006
	$'000	$'000
Cost of inventories sold and consumables	**147,760**	943,732
Representing:		
Continuing operation	**147,760**	67,157
Discontinued operation	**–**	876,575

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Trade and bills receivables	**63,496**	39,584	**–**	–
Less: allowance for doubtful debts (note 20(b))	**(2,372)**	(3,034)	**–**	–
	61,124	36,550	**–**	–
Deposits, prepayments and other receivables	**11,509**	6,994	**570**	217
	72,633	43,544	**570**	217

(a) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within 3 months	**52,110**	33,113	**–**	–
Over 3 months but less than 6 months	**6,782**	1,248	**–**	–
Over 6 months	**2,232**	2,189	**–**	–
	61,124	36,550	**–**	–

Debts are due within 30 to 90 days from the date of billing. All of the trade and other receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 31(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 1(j)(i)).

20 TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade and bills receivables (Continued)

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
At 1 January	**3,034**	–	**–**	–
Acquisition of subsidiaries	**–**	2,870	**–**	–
Impairment loss recognized	**815**	164	**–**	–
Uncollectible amounts written off	**(1,674)**	–	**–**	–
Exchange adjustments	**197**	–	**–**	–
At 31 December	**2,372**	3,034	**–**	–

At 31 December 2007, the Group's trade receivables of $3,153,000 (2006: $5,189,000) were individually determined to be impaired. The individually impaired receivables related to customers that were overdue more than one year and management assessed that only a portion of these receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $2,372,000 (2006: $3,034,000) were recognized. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within 3 months	**51,566**	31,453	**–**	–
Over 3 months but less than 6 months	**6,563**	784	**–**	–
Over 6 months	**2,214**	2,158	**–**	–
	60,343	34,395	**–**	–

20 TRADE AND OTHER RECEIVABLES (Continued)

(c) Trade and bills receivables that are not impaired (Continued)

As at 31 December 2007, receivables that were neither past due nor impaired amounted to $50,484,000 (2006: $30,097,000).

Receivables that were not impaired relate to a number of independent customers that have a good track record with the Group and no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

A writ of summons was served by DZH on Guangdong Guanghong Medicines Company Limited ("Guangdong Guanghong") in 2005 in respect of a claim for the payment of goods by Guangdong Guanghong to DZH of approximately RMB1,345,000 (equivalent to $1,439,000) together with related interest.

On 15 November 2006, a judgement ("the Judgement") was issued by Foshan Chancheng District People's Court of Guangdong Province ("the People's Court") against Guangdong Guanghong for a sum of RMB1,345,000 together with interest. In response, Guangdong Guanghong filed an appeal against the Judgement. On 15 March 2007, Foshan Intermediate People's Court of Guangdong Province ("the Intermediate People's Court") issued a judgement whereby the validity of the Judgement against Guangdong Guanghong was revoked and the case was re-heard by the People's Court on 20 November 2007. On 4 March 2008, a judgement was issued by the People's Court in favour of DZH in respect of the above claim. On 25 March 2008, Guangdong Guanghong filed an appeal against the judgement. The directors are of the opinion that DZH has a considerable prospect of success in the above claim and no allowance for doubtful debts was made on the outstanding debt of $1,439,000 which has been overdue more than one year.

21 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2007	2006
	$'000	$'000
Provision for PRC enterprise income tax	**5,864**	3,671

21 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets/(liabilities) recognized:

The components of deferred tax assets/(liabilities) recognized in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Intangible assets	Depreciation in excess of related depreciation allowance	Impairment loss in respect of fixed assets	Allowance for impairment of doubtful debts	Available-for-sale securities	Others	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Deferred tax arising from:							
At 1 January 2006	–	10,063	21,662	–	–	–	31,725
Acquisition of subsidiaries (note 30(a))	(26,525)	(10,466)	–	723	(176)	(3,344)	(39,788)
Credited/(charged) to consolidated profit and loss account	934	(981)	50,421	346	–	1,072	51,792
Disposal of subsidiaries (note 30(b))	–	(9,587)	(73,577)	–	–	–	(83,164)
Charged to reserves	–	–	–	–	(89)	–	(89)
Exchange adjustments	(261)	591	1,494	10	(3)	(16)	1,815
At 31 December 2006	(25,852)	(10,380)	–	1,079	(268)	(2,288)	(37,709)
At 1 January 2007	(25,852)	(10,380)	–	1,079	(268)	(2,288)	(37,709)
Effect of change in tax rate							
– credited/(charged) to consolidated profit and loss account	1,994	873	–	(68)	–	28	2,827
– credited to reserves	–	–	–	–	77	–	77
Credited/(charged) to consolidated profit and loss account	3,002	680	–	(238)	–	950	4,394
Charged to reserves	–	–	–	–	(717)	–	(717)
Exchange adjustments	(1,819)	(753)	–	71	(50)	(126)	(2,677)
At 31 December 2007	(22,675)	(9,580)	–	844	(958)	(1,436)	(33,805)

22 CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Deposits with banks	**11,503**	25,326	**11,503**	7,024
Cash at bank and in hand	**70,861**	83,205	**1,690**	308
Cash and cash equivalents in the balance sheet	**82,364**	108,531	**13,193**	7,332
Bank overdrafts (note 25)	**–**	(309)		
Less: Deposits with bank matured beyond three months	**–**	(18,303)		
Cash and cash equivalents in the consolidated cash flow statement	**82,364**	89,919		

As at 31 December 2007, restricted deposits of $1,498,000 (2006: Nil) were placed with the People's Court in relation to a claim lodged against a previous customer. Further details of the claim are discussed in note 20(c).

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Creditors and accrued charges	**89,802**	70,361	**1,958**	2,478
Advances received from customers	**5,156**	–	**–**	–
	94,958	70,361	**1,958**	2,478

23 TRADE AND OTHER PAYABLES (Continued)

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Due within 1 month or on demand	**89,802**	70,361	**–**	–

All of the trade and other payables are expected to be settled within one year.

24 PROVISION FOR STAFF WELFARE

	The Group	
	2007	2006
	$'000	$'000
At 1 January	**–**	257
Amount utilized	**–**	(247)
Disposal of subsidiaries (note 30(b))	**–**	(10)
At 31 December	**–**	–

25 BANK LOANS AND OVERDRAFTS

At 31 December 2007, the Group's bank loans and overdrafts are repayable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within 1 year or on demand	**–**	20,203	**–**	309
Representing:				
Bank overdrafts (note 22)	**–**	309	**–**	309
Unsecured bank loans	**–**	19,894	**–**	–
	–	20,203	**–**	309

The bank loans as at 31 December 2006 were unsecured, bore interest at 6.12% and were repayable within one year.

26 CAPITAL AND RESERVES

(a) The Group

	Share capital (Note (c))	Share premium (Note (d))	Capital redemption reserve (Note (d))	Exchange reserve (Note (e))	Reserve fund (Note (f))	Enterprise develop-ment fund (Note (f))	Fair value reserve (Note (g))	(Accumulated losses)/ retained profits	Total equity attributable to equity shareholders of the Company	Minority interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2006	83,015	1,041,726	297	20,729	23,481	23,481	–	(542,044)	650,685	158,974	809,659
Loss for the year	–	–	–	–	–	–	–	(337,401)	(337,401)	(94,293)	(431,694)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	152,902	152,902
Disposal of subsidiaries	–	–	–	(33,640)	(23,481)	(23,481)	–	46,962	(33,640)	(64,549)	(98,189)
Available-for-sale securities											
–changes in fair value	–	–	–	–	–	–	(259)	–	(259)	(249)	(508)
–to deferred tax	–	–	–	–	–	–	(45)	–	(45)	(44)	(89)
Transfer to reserve	–	–	–	–	1,065	–	–	(1,065)	–	–	–
Exchange differences on translation of accounts of PRC subsidiaries (note (e))	–	–	–	13,918	–	–	–	–	13,918	4,771	18,689
At 31 December 2006	83,015	1,041,726	297	1,007	1,065	–	(304)	(833,548)	293,258	157,512	450,770
At 1 January 2007	83,015	1,041,726	297	1,007	1,065	–	(304)	(833,548)	293,258	157,512	450,770
Reduction of share premium	–	(837,876)	–	–	–	–	–	837,876	–	–	–
Shares issued under share option scheme	82	207	–	–	–	–	–	–	289	–	289
Profit for the year	–	–	–	–	–	–	–	8,396	8,396	16,639	25,035
Available-for-sale securities											
–changes in fair value	–	–	–	–	–	–	1,453	–	1,453	1,396	2,849
–to deferred tax	–	–	–	–	–	–	(327)	–	(327)	(313)	(640)
Transfer to reserve	–	–	–	–	6,492	–	–	(6,492)	–	–	–
Dividends declared by subsidiaries paid to minority interests	–	–	–	–	–	–	–	–	–	(14,169)	(14,169)
Exchange differences on translation of accounts of PRC subsidiaries (note (e))	–	–	–	21,052	74	–	(30)	–	21,096	12,198	33,294
At 31 December 2007	83,097	204,057	297	22,059	7,631	–	792	6,232	324,165	173,263	497,428

26 CAPITAL AND RESERVES (Continued)

(b) The Company

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	(Accumulated losses)/ retained profits $'000	Total $'000
At 1 January 2006	83,015	1,041,726	297	(474,353)	650,685
Loss for the year	–	–	–	(363,523)	(363,523)
At 31 December 2006	83,015	1,041,726	297	(837,876)	287,162
At 1 January 2007	83,015	1,041,726	297	(837,876)	287,162
Reduction of share premium	–	(837,876)	–	837,876	–
Shares issued under share option scheme	82	207	–	–	289
Profit for the year	–	–	–	6,754	6,754
At 31 December 2007	83,097	204,057	297	6,754	294,205

On 12 October 2007, the High Court of the HKSAR issued an order to confirm that accumulated losses of $837,876,000 would be offset by a corresponding reduction of the share premium account.

(c) Share capital

	2007		2006	
	Number of shares '000	**Nominal value $'000**	Number of shares '000	Nominal value $'000
Authorized:				
Ordinary shares of $0.10 each	**3,000,000**	**300,000**	3,000,000	300,000
Ordinary shares, issued and fully paid:				
At 1 January	**830,146**	**83,015**	830,146	83,015
Shares issued under share option scheme	**828**	**82**	–	–
At 31 December	**830,974**	**83,097**	830,146	83,015

26 CAPITAL AND RESERVES (Continued)

(c) Share capital (Continued)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On 28 June and 21 August 2007, options were exercised to subscribe for 528,000 and 300,000 ordinary shares of $0.35 each in the Company respectively at total consideration of $289,800 of which $82,800 was credited to share capital and the balance of $207,000 was credited to the share premium account.

(d) Share premium and capital redemption reserve

The application of the share premium account and capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(t).

(f) Reserve fund and enterprise development fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund and the enterprise development fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfers are made before profit distribution to the joint-venture partners. Reserve fund can only be used to make good losses, if any, and for increasing capital. Enterprise development fund can only be used for increasing capital.

(g) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date, and is dealt with in accordance with the accounting policy set out in note 1(e).

26 CAPITAL AND RESERVES (Continued)

(h) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $6,754,000 (2006: Nil). After the balance sheet date the directors proposed a final dividend of 0.5 cent (2006: Nil) per ordinary share, amounting to $4,155,000 (2006: Nil). This dividend has not been recognized as a liability at the balance sheet date.

(i) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of an adjusted debt-to-equity ratio. For this purpose the Group defines debt as total debt (which includes trade and other payables, bank loans and overdrafts and dividend payable) plus unaccrued proposed dividend. Equity comprises all components of equity less unaccrued proposed dividends.

During 2007, the Group's strategy, which remains unchanged from 2006, was to maintain the capital in order to cover any debt position.

26 CAPITAL AND RESERVES (Continued)

(i) Capital management (Continued)

The adjusted debt-to-equity ratio at 31 December 2007 and 2006 is as follows:

	The Group	
	2007	2006
	$'000	$'000
Current liabilities:		
Trade and other payables	**94,958**	70,361
Bank loans and overdrafts	**–**	20,203
Dividend payable	**–**	28,762
	94,958	119,326
Add: Proposed dividends	**4,155**	–
Adjusted debt	**99,113**	119,326
Total equity	**497,428**	450,770
Less: Proposed dividends	**(4,155)**	–
Adjusted equity	**493,273**	450,770
Adjusted debt-to-equity ratio	**20%**	26%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of $20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions, which is the excess of 5%, or 10% for employees working over ten years, of the basic salary over the mandatory contribution. Mandatory contribution to the plan vest immediately. Where there are employees who leave the Group prior to vesting fully in the voluntary contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Employees in the Group's PRC subsidiaries are members of the state-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The Group has no other material obligation for payment of retirement benefits beyond the annual contributions as described above.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 22 May 2002 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited at the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately proceeding the date of grant. The options vest after six months from the date of grant and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Exercise period	Exercise price	2007 '000
25 July 2002	25 January 2003 to 24 January 2008	$ 0.350	828
30 July 2002	30 January 2003 to 29 January 2008	$ 0.350	8,000
19 May 2003	22 November 2003 to 21 November 2008	$ 0.415	1,500
			10,328

All the above share options are granted to the directors.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2007		2006	
	Weighted average exercise price	**Number of shares '000**	Weighted average exercise price	Number of shares '000
At 1 January	**$0.360**	**10,328**	$0.36	10,328
Exercised during the year	**$0.350**	**(828)**	–	–
Lapsed and cancelled	**$0.415**	**(1,500)**	–	–
At 31 December	**$0.35**	**8,000**	$0.36	10,328
Options vested at 31 December	**$0.35**	**8,000**	$0.36	10,328

The weighted average share price at the date of exercise of share options exercised during the year was $0.66 (2006: Not applicable).

The remaining 8,000,000 share options subsequently lapsed in January 2008.

No benefit cost or obligation is recognized at the date of grant or exercise as the Group has taken advantage of the transitional provisions set out in HKFRS 2 "Share-based payment", under which the recognition and measurement policies have not been applied to the following grants of options:

- all options granted to employees on or before 7 November 2002; and

- all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

29 COMMITMENTS

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Within 1 year	**330**	–	**–**	–

30 ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of subsidiaries

On 9 October 2006, pursuant to the passing by the independent shareholders of the resolution at the extraordinary general meeting on 3 October 2006 and the completion of the acquisition on 9 October 2006, the Company acquired the entire equity interest in HHC and amount due from HHC from FDH. HHC is an investment holding company and its principal assets are its 51% equity interests in each of DZH and FLX. Each of DZH and FLX is principally engaged in the manufacture and sale of pharmaceutical products in the PRC.

From the date of acquisition to 31 December 2006, the subsidiaries contributed net profit of $8 million to the net loss for 2006 of the Group. Had the acquisition occurred on 1 January 2006, turnover, profit from continuing operation and net loss for 2006 of the Group would have been $348.2 million, $23.9 million and $401.4 million respectively.

30 ACQUISITION AND DISPOSAL OF SUBSIDIARIES (Continued)

(a) Acquisition of subsidiaries (Continued)

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amount $'000	Fair value adjustments $'000	Recognized values on acquisition $'000
Fixed assets	140,714	38,763	179,477
Construction in progress	1,051	–	1,051
Intangibles assets	–	100,699	100,699
Other financial assets	1,611	–	1,611
Inventories	48,743	6,707	55,450
Trade and other receivables	49,439	–	49,439
Deposits with banks mature beyond three months	18,130	–	18,130
Cash and cash equivalents	69,725	–	69,725
Trade and other payables	(39,865)	–	(39,865)
Bank loans	(16,750)	–	(16,750)
Dividend payable	(63,481)	–	(63,481)
Amount due to FDH	(58,830)	–	(58,830)
Tax payable	(2,630)	–	(2,630)
Deferred tax liabilities	(1,992)	(37,796)	(39,788)
Minority interests	(99,799)	(53,103)	(152,902)
Share of net identifiable assets and liabilities	46,066	55,270	101,336
Add: Amount due from HHC			58,830
Goodwill on acquisition			122,234
Consideration			282,400
Satisfied by:			
Convertible notes issued to FDC			282,400
Net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:			
Cash and cash equivalents of the subsidiaries acquired			69,725

30 ACQUISITION AND DISPOSAL OF SUBSIDIARIES (Continued)

(b) Disposal of subsidiaries

The Group disposed of the HWI Group on 28 December 2006 to FDC and the net assets of the HWI Group at the date of disposal were as follows:

	$'000
Net assets of:	
Fixed assets	741,199
Deferred tax assets	83,164
Consumables	105,912
Trade and other receivables	66,936
Cash and cash equivalents	108,997
Trade and other payables	(350,805)
Provision for staff welfare	(10)
Bank loans	(125,332)
Other loans	(307,227)
	322,834
Minority interests	(64,549)
Exchange reserve	(33,640)
Gain on disposal	63,355
Consideration	288,000
Satisfied by:	
Offsetting with convertible notes issued and related interest and early redemption cost (see note 5(a)(ii))	288,000
Net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:	
Cash and cash equivalents of the subsidiaries disposed of	(108,997)

The impact of HWI Group on the Group's results and cash flows in prior year has been disclosed in note 7.

31 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2007, the Group has a certain concentration of credit risk as 4% (2006: 11%) and 10% (2006: 32%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

31 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group

	2007			2006		
	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000
Trade and other payables	94,958	(94,958)	(94,958)	70,361	(70,361)	(70,361)
Bank loans	–	–	–	19,894	(19,894)	(19,894)
Bank overdrafts	–	–	–	309	(309)	(309)
	94,958	(94,958)	(94,958)	90,564	(90,564)	(90,564)

The Company

	2007			2006		
	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000
Trade and other payables	1,958	(1,958)	(1,958)	2,478	(2,478)	(2,478)
Bank overdrafts	–	–	–	309	(309)	(309)
	1,958	(1,958)	(1,958)	2,787	(2,787)	(2,787)

31 FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's total borrowings at the balance sheet date.

The Group

	2007		2006	
	Effective interest rate %	**One year or less $'000**	Effective interest rate %	One year or less $'000
Fixed rate borrowings:				
Bank loans	–	–	6.12%	19,894
Variable rate borrowings:				
Bank overdrafts	–	–	2.78%	309
Total borrowings		–		20,203
Fixed rate borrowings as a percentage of total borrowings		–		98.5%

31 FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk (Continued)

(i) Interest rate profile (Continued)

The Company

	2007		2006	
	Effective interest rate %	**One year or less $'000**	Effective interest rate %	One year or less $'000
Variable rate borrowings:				
Bank overdrafts	–	–	2.78%	309
		–		309

(ii) Sensitivity analysis

As the effect of the Group's results of operations and financial position as at 31 December 2007 and 2006 in relation to the estimated increase/decrease in interest rates is not material, no sensitivity analysis is disclosed.

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries, DZH and FLX, mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Group's financial position and reflect in the exchange reserve.

31 FINANCIAL INSTRUMENTS (Continued)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 18), which are listed on the Stock Exchange of Shenzhen, the PRC. The available-for-sale investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's consolidated equity in response to reasonably possible changes in the share price of equity securities to which the Group has significant exposure at the balance sheet date.

The Group

	Increase/ (decrease) in share price	**2007 Effect on equity $'000**	2006 Effect on equity $'000
Market price of equity investments:	20%	**739**	222
	(20%)	**(739)**	(222)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the Group's equity investments would not be considered impaired as a result of a reasonably possible decrease in share price, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the share price over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(f) Fair values

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. Given these terms it is not meaningful to disclose their fair values.

All remaining financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

31 FINANCIAL INSTRUMENTS (Continued)

(g) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of financial instruments:

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

Fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(h) Business risk

The Group is dependent on specific herb materials for its production of certain pharmaceutical products. At 31 December 2007, the Group has a certain concentration of business risk as 20% (2006: 13%) of the total purchases were made from the Group's five largest suppliers. If the Group could not purchase adequate quantity of specific herb materials from these suppliers and failed to identify alternative sources, its results and financial position could be adversely affected.

32 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	2007	2006
	$'000	$'000
Final dividend proposed after the balance sheet date of 0.5 cent (2006: Nil) per ordinary share	**4,155**	–

The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

33 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the accounts. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the accounts. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the accounts.

(a) Impairment for long-lived assets

If circumstances indicate that the net book value of a long-lived asset, except in the case of goodwill, may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in accordance with HKAS 36, *Impairment of assets*. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the recoverable amount is estimated annually to assess if the carrying amounts may not be recoverable whether or not there is any indication of impairment. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price, material cost and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, tariff, expected changes to selling prices and operating costs, and discount rate.

33 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Depreciation and amortization

Property, plant and equipment and intangible assets are depreciated and amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortization expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(d) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition.

34 COMPARATIVE FIGURES

As a result of adopting HKFRS 7, *Financial instruments: Disclosures*, and the amendment of HKAS 1, *Presentation of Financial Statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these accounts.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for HKFRS 8, *Operating segments*.

In addition, the adoption of HKFRS 8, which is effective for accounting period beginning on or after 1 January 2009, may result in new or amended disclosures in the accounts.

36 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) On 2 January 2008, each of the three independent non-executive directors was granted 828,000 share options to subscribe for 828,000 ordinary shares at an exercise price of $0.434 per share with an exercise period of five years. These 2,484,000 share options in total subsequently lapsed in March 2008.

(b) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 32.

Five Year Financial Summary

(Expressed in Hong Kong dollars)

	2003 $'000	2004 $'000	2005 $'000	2006 $'000	**2007** **$'000**
Results					
Turnover					
Continuing operation	–	–	–	109,627	**355,880**
Discontinued operation	716,489	740,724	824,038	721,751	**–**
	716,489	740,724	824,038	831,378	**355,880**
Profit/(loss) from operations					
Continuing operation	(5,609)	(5,817)	(5,892)	477	**34,164**
Discontinued operation	24,749	(41,215)	(800,911)	(459,078)	**–**
	19,140	(47,032)	(806,803)	(458,601)	**34,164**
Finance costs					
Continuing operation	–	–	–	(6,358)	**(1,258)**
Discontinued operation	(26,436)	(20,892)	(18,555)	(15,476)	**–**
	(26,436)	(20,892)	(18,555)	(21,834)	**(1,258)**
Profit/(loss) before taxation					
Continuing operation	(5,609)	(5,817)	(5,892)	(5,881)	**32,906**
Discontinued operation	(1,687)	(62,107)	(819,466)	(474,554)	**–**
	(7,296)	(67,924)	(825,358)	(480,435)	**32,906**
Income tax					
Continuing operation	–	–	–	(510)	**(7,871)**
Discontinued operation	(5,381)	7,453	18,195	49,251	**–**
	(5,381)	7,453	18,195	48,741	**(7,871)**
Profit/(loss) for the year					
Continuing operation	(5,609)	(5,817)	(5,892)	(6,391)	**25,035**
Discontinued operation	(7,068)	(54,654)	(801,271)	(425,303)	**–**
	(12,677)	(60,471)	(807,163)	(431,694)	**25,035**
Attributable to:					
– Equity shareholders of the Company	(17,571)	(55,857)	(762,579)	(337,401)	**8,396**
– Minority interests	4,894	(4,614)	(44,584)	(94,293)	**16,639**
	(12,677)	(60,471)	(807,163)	(431,694)	**25,035**

Five Year Financial Summary

(Expressed in Hong Kong dollars)

	2003 $'000	2004 $'000	2005 $'000	2006 $'000	**2007** **$'000**
Assets and liabilities					
Property, plant and equipment	1,310,434	1,217,978	1,041,826	146,858	**141,817**
Investment property	–	–	–	7,663	**7,963**
Interests in leasehold land held for own use under operating leases	38,481	36,482	31,821	24,127	**25,349**
Construction in progress	–	–	–	–	**144**
Prepayment for planned maintenance	–	–	6,485	–	**–**
Intangible assets	–	–	–	98,224	**90,701**
Goodwill	609,940	578,319	–	123,437	**132,738**
Other financial assets	–	–	–	1,103	**3,953**
Deferred tax assets	5,215	12,856	31,725	–	**–**
Net current assets	44,404	22,414	94,786	87,067	**128,568**
Total assets less current liabilities	2,008,474	1,868,049	1,206,643	488,479	**531,233**
Bank loans	(28,074)	(78,607)	(100,000)	–	**–**
Other loans	(311,534)	(195,357)	(296,984)	–	**–**
Deferred tax liabilities	–	–	–	(37,709)	**(33,805)**
Net assets	1,668,866	1,594,085	809,659	450,770	**497,428**
Capital and reserves					
Share capital	82,902	83,015	83,015	83,015	**83,097**
Reserves	1,377,547	1,309,520	567,670	210,243	**241,068**
Total equity attributable to equity shareholders of the Company	1,460,449	1,392,535	650,685	293,258	**324,165**
Minority interests	208,417	201,550	158,974	157,512	**173,263**
Total equity	1,668,866	1,594,085	809,659	450,770	**497,428**
Earnings/(loss) per share					
Basic and diluted	(2.12) cents	(6.73) cents	(91.86) cents	(40.64) cents	**1.01 cents**